The Economist

20020223

PRINT EDITION

Full contents
Enlarge current cover
Past issues/regional covers
Subscribe

GLOBAL AGENDA

POLITICS THIS WEEK

BUSINESS THIS WEEK

OPINION
Leaders
Letters

WORLD
United States
The Americas
Asia
Middle East & Africa
Europe
Britain
Country Briefings
Cities Guide

SURVEYS

BUSINESS
Management Reading
Business Education
Executive Dialogue

FINANCE & ECONOMICS
Economics Focus
Economics A-Z

SCIENCE & TECHNOLOGY
Technology Quarterly

PEOPLE
Obituary

BOOKS & ARTS
Style Guide

MARKETS & DATA
Weekly Indicators
Currencies
Big Mac Index

DIVERSIONS

RESEARCH TOOLS

CLASSIFIEDS

DELIVERY OPTIONS
E-mail Newsletters
Mobile Edition
RSS Feeds

ONLINE FEATURES
Cities Guide Go
Country Briefings Go
Audio interviews Go
Classifieds Go

The Economist Group
Economist Intelligence Unit
Economist Conferences
The World In
Intelligent Life
CFO
Roll Call
European Voice
EuroFinance Conferences
Economist Diaries and Business Gifts

Advertisement

Print Edition February 23rd 2002

Hands up for vouchers
Let parents spend vouchers where they choose, with safeguards ... More on this week's lead article

The world this week

Politics this week
Business this week

Leaders

America's schools
Hands up for vouchers

America and North Korea
Eyeballing Kim Jong Il

British politics
Do you trust Tony Blair?

Arabs and Israel
Flights of fancy

Bank capital
Getting Basel right

Thabo Mbeki
Bad week all round

Letters

On America's current account, Singapore, accountants, Slavery in Sudan, Brazil and Colombia, Germany

Special Report

Zimbabwe's election
Hell, no, I won't go - Zimbabwe

United States

School vouchers
A Supreme opportunity

The economy
Yo-ho-ho!

The New Orleans mayor's race
The Big not-so-Easy

Cremations in Georgia
Stacked like cordwood

Lexington
A nation of volunteers

The Americas

Emigration from Latin America
Making the most of an exodus

Colombia's conflicts
Peace hijacked

Venezuela's armed forces
Enemies within

Canada's native peoples
Power of the Cree

Asia

George Bush in Asia
With due respect, Mr President...

Afghanistan terror
A political murder

Returning Afghans
No place like home

Maoists in Nepal
The biggest battle

Food as ambassador
Thailand's gastro-diplomacy

Treason in Fiji
Escaping the noose

Middle East & Africa

South Africa and AIDS
Stop denying the killer bug

Previous print editions
Feb 16th 2002
Feb 9th 2002
Feb 2nd 2002
Jan 26th 2002
Jan 19th 2002
More print editions and covers »

Subscribe
Subscribe to the print edition
Or buy a Web subscription for full access online
RSS feeds
Receive this page by RSS feed

Business

Internet firms
Party like it's 1999?

Soft drinks in China
Not so fizzy

Internet firms
Waiting for Google

AT&T
Size matters

German media
Liberty rebuffed

Auction houses
Lots of trouble

Pinault-Printemps-Redoute
Facing the music

Face value
From Uncle Ben's to Uncle Sam

Special Report

Car manufacturing
Incredible shrinking plants

Finance & Economics

Banks' capital adequacy
The good tailors of Basel

American banks
Cashing in

German household debt
Piles of it

Pro-forma accounting
Out, by $100 billion

Foreign banks in India
One hand clapping

Foreign brokers in Japan
Hard times

South Africa's banks
Never a micro-lender be

The yen
Base effects

Economics focus
Markets as watchmen

Correction

Science & Technology

The American Association for the Advancement of Science
The fat of the lands

Fish stocks
Dead in the water

The placebo effect
All in the mind

Interstellar travel
Safety in numbers

Books & Arts

Memoirs of surgery
Cut to life

Japanese animation
Box-office draw

Israel and the Palestinians
War outside, and within

Iran's foreign policy
Locking them up

Spain's North African enclaves
Gibraltar in reverse?

Europe

The EU's constitutional convention
The founding fathers, maybe

Crime in France
Who can beat it?

Bavaria
Stoiber's special place

Switzerland and the UN
Looking outward

Turkey and the EU
Her Excellency's unprivate e-mail

Spain
A priest, gay, and not ashamed

Charlemagne
Jean-Claude Trichet, waiting

Britain

Political donations
The Mittal way

Banking
Love me

Student finance
Should try harder

Broadband
Lift off, at last?

Football
People's Republic of Dundee

London's mayor
A shoo-in

Child poverty
A demanding target

Bagehot
Seven neglected principles

Articles flagged with this icon are printed only in the British edition of *The Economist*

New American fiction
All the way Southron

Global politics
Tea leaves

Robert Mugabe
Tyrannosaurus Rex

The Russian economy
Getting the measure of the bear

Obituary

Max Perutz

Economic and Financial Indicators

Overview

Output, demand and jobs

Prices and wages

Total hours worked

Money and interest rates

The Economist commodity price index

Stockmarkets

Trade, exchange rates and budgets

The Economist industrials index

Emerging-Market Indicators

Overview

Russia

Economy

Financial markets

Correction

Advertisement

Classifieds

Jobs
Web Producer, CFO.com
The Digital Media team provides design, development, and systems/site management for the Econ....

Business / Consumer
WSI Internet - Start Your Own Business
Business Opportunity - WSI Internet Start Your Own Busines....

Tenders
Managing Risks in the Recovered Fibre Market
Invitation to Tender WRAP (the Waste & Resources Act....

Jobs
Financial Control Specialist
ADB seeks qualified professionals to fill this position in the Loan Administration D....

Tenders
Expression of Interest - Management Audit Consultation
Expression of Interest Management Audit Consultation Company The Tim....

Jobs
Chief of Party - Colombia
Municipal Level Alternative Development Project (ADAM), Chief of Party, Municipal Level ....

Sponsors' feature About sponsorship »

Copyright © The Economist Newspaper Limited 2006. All rights reserved. Advertising Info | Legal disclaimer | Accessibility | Privacy policy | Terms & Conditions | Help

Produced by = ECO PDF TEAM =
Thanks xxmama

Politics this week

Feb 21st 2002
From The Economist print edition

America's vouchers battle

The United States Supreme Court began to hear arguments in the Cleveland **school-voucher** case, in which it must decide whether state-supplied vouchers can be used in religious schools despite the constitutional separation of church and state.

See article: The Supreme Court takes up school vouchers

Almost **200 bodies** were found in the grounds of a crematorium in Noble, Georgia, where they had accumulated over years. Ray Marsh, who ran the business, was charged with theft by deception for failing to perform the cremations and for giving relations urns filled with dirt.

Reuters

See article: Georgia's gruesome crematorium scandal

Sanctions on Zimbabwe

The EU imposed sanctions on 20 members of the **Zimbabwean government**, including the president, Robert Mugabe. They may not travel to Europe, and their European assets are to be frozen. The United States is to follow suit. The sanctions followed the expulsion of the leader of the EU's team of observers, who were to monitor the election due on March 9th and 10th. The monitors have been withdrawn.

See article: Zimbabweans are heroically trying to shake off their awful president

South Africa unveiled a sound budget, including tax cuts for the poor. Zambia, by contrast, revealed that wild spending before the election last December had caused the budget deficit to explode from less than 1% of GDP to 8%.

In **Burundi**, police announced that they had cracked a big counterfeiting ring, and gave warning that billions of forged Burundian francs could be in circulation.

Marc Ravalomanana, the opposition candidate who won the most votes in **Madagascar's** presidential election, said he was abandoning talks about a run-off election and would seize power on February 22nd.

At least 30 Palestinians and 12 Israelis were killed in two of the most violent days since the ***intifada*** broke out 17 months ago.

See article: Israel's domestic conflicts over the intifada

Israel's High Court issued a landmark ruling requiring the government to register as **Jews** people converted by the non-Orthodox Conservative and Reform movements of Judaism.

A fire in a train near Cairo, taking people to southern **Egypt** for the Eid al-Adha festival, claimed over 370 lives. It was apparently started by a gas stove. Some 2m Muslims gathered in Mecca for the festival.

Axis to grind

The **Euro-American rift** over the “axis of evil” widened. Talking to *Der Spiegel*, Germany's foreign minister, Joschka Fischer, warned the Americans against attacking Iraq. Jose Maria Aznar, prime minister of Spain—current president of the EU—told the magazine it was time to “redefine” the transatlantic alliance. The State Department called in France's ambassador over his government's view of “simplistic” American policy. And many American commentators asked who cared what Europe thinks.

Trouble for **would-be EU countries**. The EU snarled at Turkey after a hacker revealed e-mails sent by its ambassador in Ankara. The Czech Republic's prime minister got an EU rebuke for likening EU-financed Yasser Arafat to Hitler. He denied he had.

See article: Turkish hackers embarrass the EU

Jointly, **Silvio Berlusconi** and **Tony Blair** called for more economic reform in the EU, especially in labour markets and energy supply. Not mentioned: conflicts of interest or businessmen's gifts to parties.

France's President Jacques Chirac, seeking re-election, played the crime card: an anti-crime ministry and more powers for police and courts. Not included: power to question incumbent presidents.

See article: The French election and the issue of crime

The leaders of the rival communities in **Cyprus** broke off their talks, but in good humour. They will restart soon.

Spain's government and opposition Socialists agreed to ban parties that aid violence, after a leader of the Socialists' youth wing lost a leg to an ETA car bomb in the Basque region. The party at issue: ETA's political arm, Batasuna.

Korea's opportunity

EPA

George Bush said in South Korea that he had not changed his opinion that **North Korea** was part of an axis of evil. But America had no intention of invading the North and was keen to talk. The president was on a week's tour of Asia that took in Japan and China.

See article: George Bush in Asia

Abdul Rahman, a minister in **Afghanistan's** interim government, was murdered in Kabul, threatening the unity of the regime. His killers are thought to oppose the proposed return from exile of the former king, a close friend of Mr Rahman. In continued clashes between rival factions in the north of the country, four fighters and an aid worker were killed.

See article: A political murder in Afghanistan

In Nepal's bloodiest attack by **Maoist guerrillas**, 153 soldiers, policemen and civilians were killed. The Maoists claim to be seeking a better deal for the rural poor.

See article: Nepal's Maoist attack

American special forces made their first scouting trip into the jungle-clad island of **Basilan**, in the southern Philippines, where an American missionary couple and a local nurse are held by guerrillas said to be linked to Osama bin Laden.

George Speight, the leader of a rebellion against the Fijian government in May 2000, was sentenced to death for treason. Fiji's president commuted the sentence to life imprisonment.

See article: Speight sentenced to death in Fiji

Remilitarised zone

Colombia's President Andres Pastrana called off long-running peace talks with the FARC guerrillas, after a senator was kidnapped. He ordered the armed forces to retake a FARC-controlled “demilitarised zone” in the south of the country.

See article: Colombia's intensifying conflicts

The conservative government of John Howard came under attack for misleading **Australia's** voters about an incident involving asylum-seekers in last year's general-election campaign. The queen's representative in Australia, appointed on Mr Howard's recommendation, was under pressure to resign over a separate scandal.

An admiral became the third serving military officer in a fortnight to call publicly for **Venezuela's** president, Hugo Chavez, to resign.

See article: Venezuela's discontented armed forces

At a meeting in Buenos Aires, **Mercosur's** presidents called on rich countries to back IMF aid for Argentina. They also agreed to set up a permanent body to settle trade disputes within their block.

At least 50 people were killed, and more than 150 injured, after a freak hailstorm triggered flash flooding in La Paz, **Bolivia's** capital.

Reuters

Stay informed this week and every week

Sign up to receive *The Economist*'s round-up of business and politics each week. These e-mail newsletters are free and will keep you up-to-date on the latest developments around the world. Sign up here.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Economist.com BUSINESS
PRINTABLE PAGE VIEW SPONSORED BY
About sponsorship

Business this week

Feb 21st 2002
From The Economist print edition

Leo's woes

Kirch Group's heavy burden of debt looked set to force a break up of the German media giant. Kirch intends to sell its 58% stake in SLEC, a company that controls Formula One motor racing, and may offer Rupert Murdoch's News Corp a large slice of its TV and rights businesses, to settle a *euro*1.7 billion ($1.5 billion) put option payable in October.

See article: German cable television

Microsoft announced its latest ruse to translate success in personal computers into the mobile-phone market. It will link up with **Intel** to provide a standard platform for the next generation of mobile devices, allowing other companies to build a phone around it. Nokia, the mobile world leader, said it would license its own platform for use by rivals.

The future for satellite telephony took a knock. As long expected, America's **Globalstar** filed for Chapter 11 bankruptcy protection with debts of $3.3 billion. The company will continue operating while its debtors scratch their heads over what to do with Globalstar's assets; most of them are in low-earth orbit.

Relations between **MobilCom** and **France Telecom**, which owns 28.5% of the German mobile-phone concern, hit a low point. France Telecom's representative on the board quit amid accusations that the French company disapproves of heavily-indebted MobilCom's ambitious investment plans for its third-generation network.

Larry Bossidy, called out of retirement to head **Honeywell** last July after the failure of its merger with General Electric, stepped down in favour of David Cote, former boss of TRW, an electronics and technology company. TRW's share price fell. Anyone expecting a respite from Mr Bossidy's job-cutting spree at Honeywell should note that both men were disciples of “Neutron” Jack Welch at GE.

An American appeals court struck down rules that prevent **cross-ownership of cable and terrestrial broadcasters** in the same market, and instructed the Federal Communications Commission that it should reconsider a 35% ownership limit on national-TV market share. Big mergers and smaller local stations being snapped up by larger ones seem imminent.

Drinks all round

Guy Hands, Britain's biggest landlord by virtue of his position as head of private equity at **Nomura**, has put the Japanese bank's pub businesses up for sale. The 4,180 hostelries went on offer for £2 billion ($2.9 billion) a week after Nomura completed the sale of 1,200 inns to Britain's Pubmaster for £523m.

Diageo, a British drinks giant, received opening offers from America's **Fortune Brands**, Britain's **Allied Domecq** and France's **Pernod Ricard** for Malibu, a rum and coconut confection particularly popular with women. The sale is part of the price levied by America's antitrust authorities for Diageo's joint acquisition (with Pernod Ricard) of the drinks businesses of Seagram last year.

Clean power

Even **Russia**, not always held up as a model of financial probity, has joined in the ever popular pastime of accountant-bashing. Russia's financial regulator said that Gazprom, the country's biggest company,

should drop PricewaterhouseCoopers as its auditor. It also promised investigations into allegations from minority shareholders of shady financial practices at the gas company.

Innogy, Britain's leading power supplier, said that it had received several approaches from potential buyers including an offer of £2.9 billion ($4.1 billon) from RWE, a German utility. Scottish Power is also rumoured to have its eye on Innogy. The company's shares shot up on news of the bid.

Olympic achievement

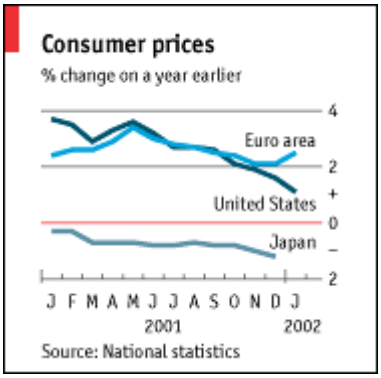
The non-emergence of credible bidders for **Olympic Airways** forced the Greek government to abandon a privatisation and announce a restructuring of the flag carrier that would see 9,000 of its staff laid-off. EU rules prevent a bail-out of the debt-laden airline, doubtless the solution the Greek government would prefer.

United Airlines, America's second-largest, and unions representing engineers and cleaners, reached agreement on pay and conditions hours before a planned strike. Debt-troubled and loss-making United had seen flyers switching airlines as the strike loomed.

Freshly privatised, Britain's **air-traffic-control system** was bailed-out by the government to the tune of £30m ($43m) after it had forced the privatisation through in the face of considerable opposition. The company's bankers stumped up the same amount.

Inflation in America is on the up. In January, the consumer-price index gained 0.2%, its first increase since September. Annual inflation fell to 1.1%, its smallest yearly rise since 1986.

See article: Can consumer spending be sustained?



Stay informed this week and every week

Sign up to receive *The Economist*'s round-up of business and politics each week. These e-mail newsletters are free and will keep you up-to-date on the latest developments around the world. Sign up here.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

America's schools

Hands up for vouchers

Feb 21st 2002
From The Economist print edition

Let parents spend vouchers where they choose, with safeguards

Corbis

Get article background

EDUCATION and religion are both controversial subjects. Now an American argument that combines them is coming to a head. On February 20th, the Supreme Court began to hear oral arguments on the legality of a school-voucher scheme in Cleveland, Ohio. Vouchers allow poor parents to choose where to spend the money the city or the state allots for their children's education. In particular, they can take their children out of failing public schools and put them into private ones.

Supporters have hailed the scheme as the best chance of reforming America's lousy public school system. But there is a hitch. In Cleveland, as in most big cities in America, most private schools are faith-based ones. Only 4% of Cleveland's voucher children go to non-religious schools. Opponents of vouchers claim that spending public money at these schools violates the constitution's separation of church and state—and they have taken their battle to the highest court in the land.

Two fundamental questions need addressing in this case. Are vouchers worth a try? And, if they are, should they be used at faith-based schools? The first demands an unambiguous yes. Although nobody knows for certain yet that vouchers work, the first signs are positive (see article). Even the teachers' unions (who predictably dislike giving parents a choice) do not really dispute the idea that voucher children can get a better education in faith-based schools. Instead, the main practical arguments against vouchers lie elsewhere. There is a free-rider problem: some parents who would have paid to send their children to private schools will now be able to get the state to pay. And far more serious is a worry that the more children quit the public system, the worse the remaining public schools will become.

That is indeed a risk, but there are powerful reasons to discount it. To begin with, introducing choice should force all schools, even the worst, to get better. That is what has happened in Chicago, where the mayor has introduced elite magnet schools to compete with the public system. America's university system, which does provide choice, is the best in the world. Far from fearing vouchers, poor parents are the ones who plead for them most loudly. They know that when it comes to inner-city schools, America has nothing to lose by embracing this scheme.

Overall, American schoolchildren do frighteningly badly in international tests. Teachers tend to blame the poor results on lack of money. This is rubbish. Countries who spend less on education achieve far more. America's problems are structural: too much money spent on bureaucracy, too few politicians directly accountable for schools, bad teachers hard to get rid of, good ones rewarded too little. Some of these defects are being tackled. America's mayors are belatedly trying to take direct control of schools. And George Bush has just pushed through an education bill that should eventually make schools more accountable for their results. But vouchers represent the biggest potential for reform. If religion did not come into it, experimentation would be much more widespread.

But religion does come into it. Two years ago, *The Economist* was so worried about the danger that disputes over the separation between church and state would snarl voucher-schemes in the courts, that we suggested they should be limited to non-religious schools. Moreover, the separation of church and state is a good thing: the events of September 11th have certainly not lessened our desire to keep religious zealotry out of classrooms. Nevertheless, banning people from using vouchers at religious

schools would limit parents' choice unfairly. Opponents say that vouchers are public money, and so should not go to religious schools. But that is like saying that someone with food stamps should therefore be banned from spending them in a kosher supermarket. Once the voucher is in a parent's hands, it is that person's money, to spend where that person chooses.

Much of it will, as opponents say, go to religious schools. The pre-existing independent-school system in cities like Cleveland is largely a Catholic one, often established by Irish and Italians early in the last century. As the inner cities have emptied out, the schools have places available for the poor blacks and Latinos who have replaced the whites. It is a perfect fit, so that is where the vouchers go. Is this a recipe for zealotry? It could be, though, as in all countries, the motives of the parents and of the schools vary greatly. The real question, however, is whether parents, especially poor ones who have long been deprived of choice in education, should be forbidden from spending their money where they wish.

The necessary strings

They should be, opponents say again, because this is public money. Yet public money already goes to America's Catholic universities, such as Notre Dame in Indiana. It also goes already to faith-based schools, to pay for textbooks, school buses and special education. Such money comes with strings attached, and the Supreme Court could insist on strings in the case of vouchers, too. Schools eligible to receive them might have to prove, for example, that they are open to children of all faiths and none; that they allow pupils to opt out of religion classes; and that they are teaching the proper curriculum in the proper way. America's thorough system of school inspections should be able to ensure that vouchers are not used, as some fear, at violently fundamentalist academies.

In the longer term, vouchers should make America's independent schools less heavily religious, by encouraging private companies to move into the education market and open more secular institutions. Encouragement is what they need. Although America has an advanced network of private companies investing in education, they cannot yet make money. Once vouchers open the door to choice, far more variety should eventually be offered to America's children. The bitter debate over faith-based schools should not be allowed to obscure the central rationale for vouchers: to improve the wretched education that too many poor American children receive. That is a credo that all Americans, whatever their beliefs, can rally round.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

America and North Korea

Eyeballing Kim Jong Il

Feb 21st 2002
From The Economist print edition

George Bush needs help from South Korea, Japan and China to manage North Korea

Reuters

PEERING across the heavily armed divide between North Korea and South Korea, in the gun sights of one of the world's most dangerous regimes, is a sobering experience even for the president of the world's strongest power. As a last outpost of the cold war and an integral component of George Bush's "axis of evil", North Korea has it all: access to all manner of nasty weapons, possibly including one or two nuclear ones, past practice at state terrorism, and a readiness to sell missiles to anyone with the cash to buy. And if ever a people deserved a change of regime, North Koreans surely do, ground into penury by a decades-long failure of Stalinism in one country.

In South Korea this week, on a trip through the region that started in Japan and ended in China (see article), Mr Bush did not mince his criticisms of Kim Jong Il's regime. Yet he also repeated America's offer to talk to North Korea. So far the North has refused. That is not just a pity, it is a danger. The two have a lot to discuss, including past-due inspections of North Korea's nuclear industry, its continued missile sales to the Middle East and South Asia, and its periodic threat to resume tests of long-range rockets. Since North Korea's provocative behaviour periodically threatens regional stability, each of the three countries Mr Bush visited this week shares an interest in coaxing North Korea out of its bunker. But time is running out.

Unreflected sunshine

Clearly uneasy at Mr Bush's unvarnished language, South Korea's president, Kim Dae Jung, has long hoped that he could melt the ice between North and South Korea by offering the North dollops of aid and other goodies while keeping silent about its poor human-rights record, its illicit weapons programmes and the vast conventional forces dug in just across the border. Noisy demonstrators in Seoul this week were blaming Mr Bush for undermining this "sunshine" policy. But the critics are wrong. Ever since the two Kims met for their historic summit in June 2000, the northern one, concerned only for his regime's survival and determined to keep North-South contact to a minimum, has stonewalled, demanding cash without any real commitment to better relations. It was the implacability with which he repaid the southern Mr Kim's proffered generosity that blotted out the sunshine.

In fact, despite his more critical tone, Mr Bush has been more generous with funds for KEDO, the organisation supervising the delivery of oil to North Korea and the building of two nuclear-power reactors there—all part of a 1994 deal to freeze and ultimately end North Korea's production of plutonium, from which nuclear bombs can be made. And America remains a generous provider (alongside South Korea, China, Japan and Europe) of humanitarian assistance, chiefly food aid, which the North Koreans have relied on in recent years to stave off famine. Yet all this could soon be under threat unless the North's Mr Kim changes his mind about talks.

North Korea has never made any bones about its readiness to trade missiles for cash. The Clinton administration had negotiated parts of a deal that would provide food aid and a series of satellite launches for an end to North Korea's missile sales abroad, as well as to its production and testing of new rockets at home. But a key element was missing: how to check that North Korea was keeping its word. Much to the North's annoyance, Mr Bush, mindful that North Korea has broken arms-control agreements in the past, sets a lot of store by verification—not just of the missile deal, but also of the 1994 nuclear

agreement. This stipulates that North Korea must come clean about its past plutonium-dabbling before the nuclear parts of the new reactors can be delivered. Unless it allows proper inspections by the International Atomic Energy Agency soon, that project could start to fall apart.

Why is North Korea dragging its feet and putting the deal in jeopardy? Perhaps it calculates that its threats to resume missile testing and plutonium production will persuade America, Japan and South Korea to skimp on the nuclear inspections. That would have been a bad miscalculation before September 11th. Given Mr Bush's new concern about weapons of mass destruction, it would be utter folly now. In the same way, North Korea resents Mr Bush's efforts to widen any future dialogue to include the threat from conventional forces. Yet he wants a more comprehensive security dialogue precisely to break North Korea away from its habit of provoking crises in the expectation of a pay-off, since buying off bad behaviour only encourages more.

At least here Mr Bush's critics are right: he is indeed trying to change the pattern of America's relations with North Korea. And not before time, since the old pattern had only fed the notion that North Korea was a law unto itself. Unfortunately, Mr Bush cannot do all this on his own. He will need the co-operation of South Korea, Japan and China.

A better axis

Kim Jong Il has long exploited differences between America, South Korea and Japan to his own benefit. Only by working together do these three ever get him to improve his behaviour. Mr Bush won public support this week for his sterner stance from Japan. And he sought to bridge the gap with South Korea's Mr Kim by praising his sunshine policy as “visionary”, leaving both men free to regret in their own ways that North Korea does not yet share their vision of improved ties. Both should keep their offers of talks on the table, but Mr Kim needs to accept that it makes no sense to go on offering cash to North Korea without making clear the consequences of its refusal to talk to America about missiles and nuclear matters. That only encourages more brinkmanship.

Meanwhile, China has no interest in seeing North Korea provoke another crisis either. If not exactly its friend, then its propper-upper of last resort, China can do most to nudge the North to the table. Perhaps some diplomatic hand-holding will do the trick. If not, China's leaders need to explain that, by fomenting another crisis, North Korea will lose their backing too. Not a message they would find it easy to deliver. But North Korea is a difficult problem for everyone.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

British politics

Do you trust Tony Blair?

Feb 21st 2002
From The Economist print edition

If he loses his credibility, Britain's prime minister risks finding he has lost everything

Get article background

Reuters

POLITICIANS and pundits often like to think that elections are won through a mixture of policies, big ideas and an appealing image. The truth is simpler. All these are but ingredients of a larger point: trust. Most people are not very interested in politics. They decide either that they trust an incumbent government so little that they kick it out, or that they trust a party enough to put or keep it in. Small wonder that Tony Blair has played mercilessly on his clean, open, trustworthy nature, in his two massive election victories. Which is why it is a huge wonder that, a mere six months since his latest and greatest win, he is choosing to put that very trust at risk.

Mr Blair has always had something of a sincerity gap. His saintly, “I'm a straight kinda guy”, pose will not have fooled many voters. He and his government have consistently over-promised, both in grandiose speeches and in spin-doctors' claims that every modest, incremental reform is the most radical change since 1945. But in politics, trust is relative. Voters expect politicians to exaggerate, and even to be a bit devious. Mr Blair's advantage has been that he and his team looked more trustworthy—and certainly more credible—than the main alternative, the Conservatives. It is that relative advantage that he is now in danger of destroying.

Half-straight, half-open

The reason is not a single, scandalous revelation: it is an accumulation of things. It is not the fact that he allowed his transport secretary, Stephen Byers, to keep a political adviser who thought September 11th provided a great opportunity to “bury” bad news, until she had to be fired in an internal ministry row last week. It is not the fact that he signed a letter to the Romanian government in support of an Indian businessman who just happened to have donated £125,000 to the Labour Party a few weeks earlier (see article). It is not the fact that he has broken promises to bring in open government and a real Freedom of Information Act; nor that his idea of a reformed House of Lords is one that poses no threat to the already lickspittle House of Commons; nor that his party's publicists tried to smear an old lady, whose family complained about her poor hospital treatment, as a racist. It is all of these things, piling one upon the other.

The common thread between these various episodes has to do with trust and openness—or, rather, the lack of both. His party's publicists now have a proven track record of peddling half-truths and even outright deceit, which until recently the prime minister could pretend to distance himself from. His failure last September to order the sacking of Jo Moore, the news-burying special adviser to Mr Byers, showed that he was happy to be complicit in such practices. The deeper significance of that lies in the increased politicisation of the civil service that has taken place under Labour. Mr Blair has continued a previous trend, by giving more power to political advisers and interfering more in civil service appointments. That would not necessarily be a bad thing, except for the fact that there are no constitutional checks on the advisers' behaviour—and Mr Blair's constitutional reforms have made it plain that he doesn't favour any.

Mr Blair's claims in the past few days that his letter in support of Lakshmi Mittal's Romanian deal was merely intended to help British business abroad are absurd on their own terms; a few moments of checking would have told his staff that Mr Mittal's firm cannot really be called British in any proper sense

of the word. Perhaps, though, he signs such letters all the time, for all sorts of firms, helping to bring capitalism to all sorts of places? Perhaps. But it is not possible to know, because he will not release any hard, checkable information about the background to the letter, or about the frequency with which such letters are sent. Mr Blair dismisses the affair as “garbagegate” and says we must trust his word that there was nothing corrupt about it. The louder the demands for information, the more he and his advisers retreat into their bunker.

On the face of it, Mr Blair's approach is working. He remains miles ahead in the opinion polls. Although some polls say that Labour is now considered to be sleazier even than the Tories, this has not yet affected the government's overall ratings. Moreover, barring an apocalypse, there are at least three-and-a-half years to go before the next general election. Nevertheless, the approach is dangerous. For a start, it puts in danger Mr Blair's own ambition to hold a referendum on British adoption of the euro this autumn, or in the spring of 2003: to succeed in that, he needs the public to trust his recommendation, and to avoid the temptation to make the referendum simply a protest vote against the government. In the longer term, though, it could put in danger his very survival. It is reminiscent of the recent troubles of Marks & Spencer. The retailer seemed to be coasting along on its fine reputation. But, bit by bit, customers began to doubt that its products were as good as it was claiming. Suddenly, its brand and its business tumbled. The same could well happen to the Tony Blair brand.

Tricky Tony v Honest Iain

Trust in politicians, to repeat a point, is relative. Favours and cover-ups may be forgiven, on the grounds that all politicians do such things. Mr Blair, though, could prove vulnerable in two ways. One is that it is plainly going to be difficult for his government—as for any government—to bring about noticeable improvements in health, transport and education, which he and his ministers have promised by 2005-06. At that point, relative trustworthiness may be all he has left. The second is that, for once, his opponents look well placed to exploit a tumble. The Liberal Democrats stand ready to exploit any disillusionment with his record on public services. And by sheer chance, the Tories look well placed to exploit both a referendum defeat and, most important, a loss of trust. Their leader, Iain Duncan Smith, is dull and does not come across, shall we say, as very clever. Against the flashy and ever-so-clever Mr Blair, however, that could prove a winning formula. If, that is, the prime minister continues to show his current contempt both for criticism and for openness.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

Arabs and Israel

Flights of fancy

Feb 21st 2002
From The Economist print edition

Saudi Arabia's plan for solving the Middle East crisis deserves to be carried through

EPA

THEY damn Israel's post-1967 occupation of East Jerusalem, the West Bank and Gaza but, for all their words, warnings and crocodile tears, Arab governments have done notoriously little to end that occupation and advance a Middle East peace. But now, with the cycle of violence at its most vicious, Saudi Arabia's de facto ruler is half-suggesting a formula, beautiful in its simplicity, for breaking the cycle: let all Arab governments offer to recognise, and to have normal relations with, an Israel that has withdrawn to its pre-1967 borders.

A half-suggestion only because, according to Thomas Friedman, of the *New York Times*, Crown Prince Abdullah had intended to deliver this proposal at the Arab League's summit on March 27th and 28th, but the Israeli government's singularly aggressive policies have given him pause. The prince wanted to find a way, or so he amicably told Mr Friedman, to send a signal to the Israelis that the Arabs' rejection of their Palestinian policy did not amount to a rejection of Israel.

The prince's kite will fly when pigs fly too, respond cynics. And they are right to be sceptical: the scheme, for all its good sense, has little chance of catching on, at least for the moment. The more hawkish Arab governments—Syria, for a start, and Iraq, to be going on with—would need a lot of persuading even to touch it. And Ariel Sharon would not dream of picking it up. The last thing that Israel's prime minister wants is to be tempted out of land, in Jerusalem and the West Bank, that he, and those who share his convictions, sincerely believe to be Israel's to have and to hold in perpetuity.

But the initiative could still resonate if Saudi Arabia could bring itself to launch it formally at the summit. Saudi Arabia, after all, unlike Egypt and Jordan, America's other main Arab allies, has always maintained a stubbornly hostile attitude towards Israel. Its semi-official leaking of the plan has already been welcomed as a “historic opportunity” by Palestinians. Yasser Arafat has praised it as a contribution to a just and lasting peace; and the Palestinian parliament has expressed its hope that the world, and Israel, will respond positively.

Israel is where the initiative is aimed. Most Israelis, their feelings conditioned by the terrorism in their cities and their near-terminal disillusion with Mr Arafat, still see no alternative to their government's security-first-and-last policies. Many advocate even harsher measures. Even so, flickers of rethinking are beginning to lighten the darkness (see article). Questioning the “security” that their prime minister promised to provide for them, Israelis are starting to wonder whether there might be a surer route to safety. Some young soldiers are refusing to serve in the occupied territories, and some older ones are calling on Israel to withdraw from most of them. The peace camp, shattered by the *intifada* and the failure of the Camp David talks, is trying to pull itself together.

It might be wonderfully helpful at this delicate point if Israelis were told by Arab governments that bad old Arab ambitions to eliminate the Jewish state were as dead as dodos. If they could be convinced that an unencumbered Israel would be accepted as a good neighbour, many might jump at it. But, first, the Arabs themselves have to be convinced. So all strength to the crown prince, and his modest proposal.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Bank capital

Getting Basel right

Feb 21st 2002
From The Economist print edition

Attempts to reduce the risk of banks collapsing are well-intentioned, but inadequate

BANKS engage in unnatural acts. They take in short-term deposits, promising to return them on demand. They then lend out the deposits to others—without being able to call in the loans when they want. Liquidity on demand is a confidence-trick, a fragile house of cards; it helps explain why banks endow their headquarters with a cathedral-like sense of permanence. It also explains why many governments regulate the activity of banks and underwrite the public's deposits with them. The collapse of one bank—or even the possibility of it—can have knock-on effects on other banks, and on the economy as a whole. Research by the Bank of England suggests that banking crises over the past 25 years have on average caused cumulative output losses equivalent to 15-20% of GDP.

To guard against collapse, banks keep a cushion of capital against the risk of unforeseeable loss. Once, this was a domestic matter. As international banking has grown, so too has concern for the soundness of the banking system worldwide. In 1988, the Basel committee for international banking supervision took the big step of classifying the riskiness of different types of credit, and of imposing minimum amounts of capital to be set against the risks of each. This accord, known as Basel 1, is in force today.

It is appealingly simple. Yet in its attempt to create a level field for banks, Basel 1 had unintended consequences, causing distortions and irrational lending which actually heighten systemic risk. Banks are penalised no more for making loans to a fly-by-night software company in Thailand than to Microsoft; no more for loans to South Korea, bailed out by the IMF in 1998, than to Switzerland. In addition, bankers have developed complex ways to distance themselves from the risk attached to the loans that they make. They use special vehicles and other tricks—not unlike those at Enron—to disguise where the risk really lies. In consequence, risk is often underpriced, which regulators—and shareholders—find ever harder to spot.

Basel 2, a process launched in 1998, is an attempt to tackle this issue, but it is about to suffer delays—yet again. There now seems little chance that the regime will be in place before 2006. The proposals are fiendishly complex, but the process seems to have gone beyond the point of no-return (see article). Too much face is at stake; besides, some of the very real objections to Basel 2 are being addressed.

How about Basel 2.1?

It may be too late to tear the thing up and start again with a lighter regulatory touch: fewer rules, more disclosure, and a flat insistence on a much bigger capital cushion for banks. Still, the new regime can be greatly improved, starting with less obsession with the precise weighting of various credit risks. One admittedly useful outcome of the Basel 2 process is that banks are being forced to think hard about the relative riskiness of all their businesses, and to allocate capital accordingly.

Two unwelcome by-products come from institutionalising this approach, however. First is a potentially dangerous monolithic view of risk, rendering the banking system more vulnerable to unexpected shocks. Second, and related to the first, is the risk of banks and regulators slavishly following precise credit-risk models, which, however good, cannot entirely anticipate future shocks. Models are fine in helping to allocate capital, but a cushion on top is always essential.

Regulators understand this, which is why they envisage what they call a second pillar, the power to use their discretion to override risk-based rules, demanding more capital from banks that may somehow be gaming the system. The trouble here is that supervisors distrust their counterparts elsewhere too much to have full faith in their discretionary powers.

Hence the vital importance of the third pillar—more information divulged by banks. Were banks forced to disclose more about their risks, then market signals could act to discipline their behaviour. One way to achieve this would be the issuance by banks of unsecured, subordinated debt (see article). For that discipline to work, however, supervisors would have to be bold enough to show that no bank is too big to fail and be wound up in an orderly fashion—proof, after all, of the success, not the failure, of their system.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Bank capital

Getting Basel right

Feb 21st 2002
From The Economist print edition

Attempts to reduce the risk of banks collapsing are well-intentioned, but inadequate

BANKS engage in unnatural acts. They take in short-term deposits, promising to return them on demand. They then lend out the deposits to others—without being able to call in the loans when they want. Liquidity on demand is a confidence-trick, a fragile house of cards; it helps explain why banks endow their headquarters with a cathedral-like sense of permanence. It also explains why many governments regulate the activity of banks and underwrite the public's deposits with them. The collapse of one bank—or even the possibility of it—can have knock-on effects on other banks, and on the economy as a whole. Research by the Bank of England suggests that banking crises over the past 25 years have on average caused cumulative output losses equivalent to 15-20% of GDP.

To guard against collapse, banks keep a cushion of capital against the risk of unforeseeable loss. Once, this was a domestic matter. As international banking has grown, so too has concern for the soundness of the banking system worldwide. In 1988, the Basel committee for international banking supervision took the big step of classifying the riskiness of different types of credit, and of imposing minimum amounts of capital to be set against the risks of each. This accord, known as Basel 1, is in force today.

It is appealingly simple. Yet in its attempt to create a level field for banks, Basel 1 had unintended consequences, causing distortions and irrational lending which actually heighten systemic risk. Banks are penalised no more for making loans to a fly-by-night software company in Thailand than to Microsoft; no more for loans to South Korea, bailed out by the IMF in 1998, than to Switzerland. In addition, bankers have developed complex ways to distance themselves from the risk attached to the loans that they make. They use special vehicles and other tricks—not unlike those at Enron—to disguise where the risk really lies. In consequence, risk is often underpriced, which regulators—and shareholders—find ever harder to spot.

Basel 2, a process launched in 1998, is an attempt to tackle this issue, but it is about to suffer delays—yet again. There now seems little chance that the regime will be in place before 2006. The proposals are fiendishly complex, but the process seems to have gone beyond the point of no-return (see article). Too much face is at stake; besides, some of the very real objections to Basel 2 are being addressed.

How about Basel 2.1?

It may be too late to tear the thing up and start again with a lighter regulatory touch: fewer rules, more disclosure, and a flat insistence on a much bigger capital cushion for banks. Still, the new regime can be greatly improved, starting with less obsession with the precise weighting of various credit risks. One admittedly useful outcome of the Basel 2 process is that banks are being forced to think hard about the relative riskiness of all their businesses, and to allocate capital accordingly.

Two unwelcome by-products come from institutionalising this approach, however. First is a potentially dangerous monolithic view of risk, rendering the banking system more vulnerable to unexpected shocks. Second, and related to the first, is the risk of banks and regulators slavishly following precise credit-risk models, which, however good, cannot entirely anticipate future shocks. Models are fine in helping to allocate capital, but a cushion on top is always essential.

Regulators understand this, which is why they envisage what they call a second pillar, the power to use their discretion to override risk-based rules, demanding more capital from banks that may somehow be gaming the system. The trouble here is that supervisors distrust their counterparts elsewhere too much to have full faith in their discretionary powers.

Hence the vital importance of the third pillar—more information divulged by banks. Were banks forced to disclose more about their risks, then market signals could act to discipline their behaviour. One way to achieve this would be the issuance by banks of unsecured, subordinated debt (see article). For that discipline to work, however, supervisors would have to be bold enough to show that no bank is too big to fail and be wound up in an orderly fashion—proof, after all, of the success, not the failure, of their system.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

Letters

Feb 21st 2002
From The Economist print edition

The Economist, 25 St James's Street, London SW1A 1HG
FAX: 020 7839 2968 E-MAIL: letters@economist.com

America's imbalance

SIR – The only trouble with your excellent article on America's current-account deficit is that it seriously understates the problem ("Wanted: $2 billion a day", February 16th). You are correct that the United States requires net imports of foreign capital of about $2 billion a day to finance its huge, rapidly growing and unsustainable external imbalance. But you forget that America also exports capital at a rate that is about the same as the current-account deficit.

Hence, gross capital imports must reach about $4 billion daily, or in fact about $5 billion per working day, to balance the books overall. Even a small decline in those inflows would push the dollar down, inflation and interest rates up, and severely threaten the recovery in the world's only major engine of economic growth.

C. Fred Bergsten
Director, Institute for International Economics
Washington, DC

Educating Singapore

SIR – You allege that "the government does not seem to know what role it wants race to play in Singaporean society" ("Veiled threats", February 9th). Race is a complex and sensitive issue in our multiracial society but the government's policy is clear. We encourage the integration of the different ethnic groups to increase the common ground among them but we also respect each community's wish to keep its own space where it can practise its own religion and customs.

Our schools are critical for nation building. It has taken us four decades to transform the ethnically segregated school systems we inherited from the colonial government into a single, racially integrated national school system. The wearing of uniforms is a daily reminder to young Singaporeans that school is where they stand together and bond with fellow citizens, regardless of race, religion or social status. We do not want this common space to be fragmented or divided.

Allowing some students to wear modified school uniforms will tend further to divide and segregate our students. Muslims are not the only ones who have made such requests, nor is the wearing of headscarves the only request that we have received from Muslims. Sikh students have indeed been allowed to wear turbans since colonial times but that historical practice does not justify further modifications for other groups.

Malay Singaporeans may still lag behind the Chinese and Indians in educational achievement but, with additional tuition, they have made enormous progress under our system of meritocracy. They ranked seventh in the world in the third international mathematics and science study of 1999—ahead of students from England and America.

Also, you describe Zulfikar Mohamad Shariff as "in one sense...the perfect Singaporean." His website asserts that Osama bin Laden is a good Muslim and that there is no proof that those who carried out the World Trade Centre attacks were Muslim. Singaporean Muslims have seen Mr Zulfikar for the extremist that he is and repudiated him.

Lim Chee Hwee
Ministry of Education
Singapore

Called to account

SIR – For ten years greedy American institutional investors have demanded of companies that they grow by at least 10% a year in industries that grow at the same rate as GDP ("The lessons from Enron", February 9th). These same investors encourage firms to take special charges and "manage" expectations, and tout earnings per share over free cash flow to ease the manipulation of the accounts. They have also demanded lay-offs, plant closures and restructuring in mature industries simply because they failed to match the over-inflated ambitions of dotcoms and high-tech brethren.

Peter McCausland
Radnor, Pennsylvania

SIR – Increased financial regulations, corporate governance and the transformation of auditing firms into multinational conglomerates have deprived company accounts of much of their meaning and damaged the auditing profession. The question now asked of accounts, as a technical matter, is whether they fit the rules not whether, as a professional judgment, they show a true financial position. Auditors should say whether accounts provide essentially a true and fair view.

Sir Paul Girolami
London

SIR – Your cover illustration of accountants imprisoned in cages is absolutely disgraceful. It is an insult to many thousands of men and women who work hard to achieve the demanding standards asked of accountants. You owe them all an unreserved apology.

K.C. Manterfield FCA
Buckhurst Hill, Essex

Stopping slavery

SIR – You claim that the government of Sudan denies the existence of slavery ("A funny way to end the slave trade", February 9th). Rather, it acknowledges and regrets that a centuries-old tradition of intertribal kidnapping and ransom exists in many African countries. Recently, Sudan's government appointed a leading human-rights lawyer to chair a reinvigorated campaign to wipe out the practice and return abducted citizens to their homeland.

A. al Koronky
Embassy of Sudan
London

SIR – Your portrayal of efforts to free Sudanese slaves is grotesquely distorted. I visited south Sudan last year and found nothing to suggest that the redemption of slaves by Christian Solidarity International increased the market for slaves or is riddled by corruption. Dinka leaders estimate that 200,000 of their people are enslaved in northern Sudan; your ludicrously low figure is nothing but government propaganda. Sudan's slaves are raped, murdered and converted to a faith that is not their own. Would you have us leave women and children in the hands of monsters?

Charles Jacobs
Patheralman Hamouda
American Anti-slavery Group
Boston

Brazil v Colombia

SIR – Your article on political violence in Brazil ("Kidnapping an election agenda", January 26th) is accompanied by a chart showing that in 1996 the murder rate in Bogota was slightly higher than in Sao Paulo and since that the murder rate in Bogota has declined by around 50% while it has remained almost unchanged in Sao Paulo. You chose the title, "The Colombianisation of Sao Paulo". My reading is the "De-

Sao Pauloisation of Bogota.”

Roberto Steiner
Bogota

German shepherd

SIR – You are right that the euro's nuclear option—an official warning to a country with a fiscal deficit that is probably going to exceed 3% of GDP—was unlikely to be used against Germany (“Could the euro's nuclear option ever be used?”, February 2nd). You fail to mention the obvious explanation. The “stability and growth pact” is a German creation. Its use would be a case of a dog biting its owner.

Risto Penttila
Helsinki

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Economist.com SPECIAL
PRINTABLE PAGE VIEW SPONSORED BY
About sponsorship

Zimbabwe's election

Hell, no, I won't go - Zimbabwe

Feb 21st 2002 | HARARE
From The Economist print edition

Robert Mugabe says that his opponents will "never, ever" rule Zimbabwe. Voters hope to prove him wrong

Reuters

Get article background

SHEPHERD NGUNDU, a schoolteacher, was beaten to death for reading a newspaper. A group of militiamen loyal to Robert Mugabe, Zimbabwe's president, caught him leafing through the pages of the *Daily News*, a journal whose writers are often rude about the government. The militiamen accused Mr Ngundu of supporting Morgan Tsvangirai, Mr Mugabe's rival in a presidential poll due on March 9th and 10th. They marched him to his house and ransacked it, searching for a badge or pamphlet that might have identified him as a member of the Movement for Democratic Change (MDC), the main opposition party. They found none, but decided that the newspaper in his hands was evidence enough. They dragged him to a crossroads market where, before startled shoppers, they hammered him with iron bars and lashed him with chains until he died.

Mr Ngundu's death reveals something about Mr Mugabe's priorities. As his re-election campaign enters its final fortnight, it seems that the 78-year-old autocrat would rather wreck his country than surrender control of it. He knows he is widely hated. He knows that if Zimbabweans are allowed to vote freely, they will prise his elegant fingers from the reins of power. To prevent this, he has recruited a rabble of jobless youths, trained them in terror tactics and unleashed them on the people. This new militia—dubbed the "terror teens"—has apparently been ordered to prevent Mr Tsvangirai's supporters from campaigning, and to scare as many as possible into staying at home on polling day.

Mr Ngundu looked like the sort of person who might support the opposition. He was an educated man, and educated Zimbabweans mostly loathe their president. So the president's men dispatched him as painfully and publicly as they could. As with so many of the hundred-odd slayings that have accompanied Mr Mugabe's campaign, the aim was to kill one, and frighten many. Teachers and nurses, who are among the best-known and best-educated people in many villages, have been systematically victimised. Thousands have been bound, beaten and threatened. Many have fled to the cities or emigrated, forcing hundreds of schools and clinics to close. Whoever wins, this is an election from which Zimbabwe will not easily recover.

The world is close to despairing of Zimbabwe. Neither loud condemnation from the British government nor South Africa's "quiet diplomacy" has persuaded Mr Mugabe to behave any better. At a series of summits and pow-wows, he has promised to respect his own laws and to allow a free and fair election.

Each time, his thugs have carried on as before, tying MDC activists to trees and whipping their naked bellies with barbed-wire flails. The European Union (EU) finally lost patience on February 18th, after their chief election observer was expelled from Zimbabwe. EU foreign ministers announced that they would withdraw all observers from the country and impose “smart sanctions” on Mr Mugabe and 19 top cronies, barring them from travelling to Europe and freezing their overseas assets, if they can be traced. America promises to follow suit, but that will make little difference. There is no chance that the election will be free or fair.

Organising mayhem

The question is: will Mr Mugabe lose anyway? It is impossible to predict. On the one hand, after 22 years of misrule, most Zimbabweans would love to be rid of him. On the other hand, the old man is already cheating, chiefly through the use of terror.

Such tactics have worked before. At independence in 1980, Mr Mugabe would have won a fair vote. But just to make sure, the more thuggish members of his party, ZANU-PF, prevented opposition supporters from campaigning in a third of the country. In the mid-1980s, fearing that the Ndebele tribe might someday thwart him, he murdered at least 10,000 of them and forced survivors to dance on their brothers' graves singing ZANU anthems. By 2000, ZANU's popularity had plunged, and the party would certainly have lost its majority in parliament if Mr Mugabe's hired hoodlums had not burned down thousands of peasants' homes and threatened to come back and kill them if they elected an opposition candidate.

Veterans of that year's mayhem are now busy again. Readers may remember a cowboy-hatted character named Big Chitoro, who led the intimidation of voters in Mberengwa East, a rural constituency, in 2000. The last time your correspondent saw him, he was driving a truckful of boisterous young men from polling station to polling station, wavingZANU flags, knives and crowbars. After the election, he was indicted on murder and torture charges arising from the campaign, but he was recently released on bail and is reportedly terrorising the citizens of Mberengwa once more.

The violence scares people, but it enrages them too. Last week, Prosper, a young accountant who does not wish to be identified by his surname, stopped to buy a Coke while driving home. His vehicle was surrounded by 20 militiamen. He and his four passengers were dragged out and beaten for two hours. Prosper was handcuffed, whipped and kicked repeatedly in the face. His passengers were thrashed with an iron bar. After visiting a hospital to be stitched up, Prosper and his friends went to report the assault to the police. They found their assailants in the police station, chatting to the officers on duty. The station chief told Prosper that he had been ordered to take no action against members of Mr Mugabe's militia, but that anyone else involved in violence should be arrested. Prosper is incensed. Previously, he was not planning to vote, but now he says he will back Mr Tsvangirai.

AP

Not much doubt what he thinks

It's the economy, stupid

Mr Mugabe is unpopular because the average Zimbabwean income has fallen by half since independence. The slide began slowly. But the longer Mr Mugabe has been in power, the more entrenched and corrupt his regime has become. His cronies award each other jobs, perks and public-works contracts. Entrepreneurs who cross them are hounded into bankruptcy. Skilled Zimbabweans have emigrated by the planeload.

In the early years, the impact of all this was cushioned by generous aid flows from Britain and elsewhere. A successful land- reform programme in the 1980s saw 70,000 families resettled on farmland bought with donor funds from willing sellers. But donors pulled out when they saw that a lot of their money was

being used to buy country estates for generals and cabinet ministers.

As aid dwindled, Mr Mugabe made no effort to spend within his means. From 1997, public finances went doolally. The main result was graft. ZANU bigwigs had looted a fund intended to compensate veterans of the liberation war. Mr Mugabe's brother-in-law, for example, wangled $70,000 for a scar on his left knee and some ulcers that he claimed had left him 95% disabled. Destitute and deserving veterans, meanwhile, received nothing, so they rioted. To calm them, Mr Mugabe gave 50,000 of them fat lump sums and pensions, which bust the budget. He also promised them land, which he said he would seize from white commercial farmers without compensation.

Zimbabwe's courts ruled the plan illegal, but Mr Mugabe pressed ahead regardless. His open scorn for property rights killed investment in Zimbabwe. Undeterred, the president encouraged the war veterans to invade white-owned farms and peg out claims. The ostensible aim was to right the wrongs of the colonial era, when whites stole land from blacks, and to give the poor and landless a chance to become self-sufficient. But the veterans spent little time ploughing or sowing, finding they could earn better money beating up opposition supporters on behalf of the security services.

Agriculture withered. Farmland became worthless as collateral, so farmers could not raise credit for fertiliser. And they could not easily tend their crops because the veterans kept breaking their employees' legs. Food prices soared. Mr Mugabe responded by imposing price controls, obliging shops to sell bread for less than it cost to bake. Shops ran out of food; Mr Mugabe blamed “hoarders”.

Unemployment is now estimated at 60% and inflation at 116%. Fuel is in short supply, despite help from Libya. In rural Zimbabwe, 500,000 people are now estimated to be at risk of starvation. Recent emergency imports of South African maize may prevent large numbers of people from dying, but most Zimbabweans remain poor, hungry and angry. Silas, a mechanic from Harare, says he cannot find food in the shops, cannot afford what little he does find, and dislikes being stopped at roadblocks and roughed up by Mr Mugabe's militia. “Living in this country is like living in jail,” he complains.

AP

One Tsvangirai rally they failed to ban

Better the devil you don't know

If re-elected, Mr Mugabe says he will build a million new homes and provide jobs for all, free health care and education, and so on. His manifesto is a bit hazy, however, on the details of how he will manage this. Firm proposals include continued price controls and accelerated “land reform”—in other words, more of the same. This is logical enough, if you accept Mr Mugabe's premise that all Zimbabwe's problems are the fault of a conspiracy of white racists and homosexuals.

Mr Tsvangirai, by contrast, promises radical change, most of it for the better. For example, he promises serious efforts to tackle HIV/AIDS, which afflicts a quarter of Zimbabwean adults but does not seem to concern Mr Mugabe much. Some observers believe that the virus has actually helped Mr Mugabe, by creating a class of young men who know they have nothing to lose and so are easy to recruit into his militia. Chenjerai “Hitler” Hunzvi, Mr Mugabe's late chief intimidator, is thought to have died of AIDS.

More broadly, Mr Tsvangirai promises a return to the rule of law and to prudent economic management. The government will stop spending recklessly and printing money to pay its bills. The flabby civil service will be trimmed, and Mr Mugabe's vast patronage machine dismantled. The Zimbabwean army will be recalled from Congo, where it is embroiled in a pointless civil war that costs Zimbabwean taxpayers a fortune and enriches a few generals who are looting Congo's diamond mines. Land reform will be carried out, but in an orderly manner, starting with an audit of land ownership. Friendly relations will be restored with the IMF, the World Bank and other donors, all of whom are anxious to help rebuild the country after Mr Mugabe goes.

All this sounds wonderful, but there is no way of knowing whether Mr Tsvangirai means any of it, or whether he would be able to put it into practice. He was an effective union boss, but he has no experience in government. His party contains all sorts, united mainly by their dislike of Mr Mugabe. The

MDC itself might, in time, turn out to be as dirty as the current mob. Something similar happened in Zambia, Zimbabwe's northern neighbour, after 1991. In Zambia's first free election, Frederick Chiluba, a charismatic labour leader, defeated Kenneth Kaunda, the country's founding father turned autocrat, by promising liberal democracy and a market economy. But Mr Chiluba's regime turned out to be breathtakingly corrupt. A decade later, Zambians are even poorer, and their only large industry, copper mining, has just collapsed.

Campaigning under cover

Despite these caveats, an opposition victory is Zimbabwe's only hope. It will be hard to achieve. Besides his monopoly of force, Mr Mugabe has several advantages. He controls all broadcast media, which accordingly praise his donations of maize meal to peasants, while accusing Mr Tsvangirai of plotting to assassinate Mr Mugabe and to hand Zimbabwe back to its former colonial rulers. Most foreign media groups have been barred from reporting on the election. An exception is being made for Britain's Independent Television News, largely to spite the BBC, its rival, which the information minister particularly hates.

New laws favour the incumbent, too. For example, Mr Tsvangirai is barred from publicly denigrating the president, the police or the army—which makes campaign speeches a bit tricky. Mr Mugabe believes he can rely on the support of rural folk from his own ethnic group, the Shona. The fewer people from other groups vote, the better his chances of “winning”. So Mr Mugabe is trying to disfranchise as many urban, educated and non-Shona voters as possible. Zimbabweans living abroad may not vote, unless they are diplomats or soldiers. That excludes several hundred thousand people, in a country with an adult population of 6m. Those with foreign-born parents, unless they took the trouble to prove before January 6th that they had renounced all claims to a foreign passport, were stripped of their Zimbabwean citizenship. Scores of thousands of people with Zambian, Malawian, Mozambican or British ancestors thus lost their right to vote.

Among those recently informed of their disfranchisement was a 93-year-old former prime minister, Sir Garfield Todd, who has been a Zimbabwean citizen for 67 years. Mr Todd says he will try to vote anyway, but he may find the officials at polling stations unsympathetic. Under a newly-amended electoral law, only state-approved monitors may oversee voting and counting, under the watchful eye of the army officers Mr Mugabe has chosen to direct the proceedings. For good measure, it is illegal for non-governmental organisations to teach voters that their ballots will be, or are meant to be, secret.

A new security law allows the police to ban any public gathering, so MDC supporters have little choice but to hold small, discreet meetings in each other's houses. Campaign messages are spread by word of mouth: market women whisper to their customers, farm workers grumble quietly to their friends. The MDC encourages its members to attend ZANU meetings and buy ZANU membership cards, so that they can produce them at roadblocks and avoid being maimed. An MDC supporter in Harare admitted that he and most of his friends pretend, when in public, to support the ruling party. But, he said: “We know what is in our hearts, and that is where we will put our X.”

Sixty-nine of Mr Tsvangirai's rallies have been banned or disrupted by thugs. Yet in urban areas, where his support is almost universal, he has managed to hold some spirited gatherings. In the eastern border city of Mutare, 15,000 people donned MDCT-shirts and welcomed him with whoops and cheers, despite being warned not to by the terror teens, who knocked on almost every door in town and menaced the occupants.

Mr Mugabe was also planning to hold a rally in Mutare, but cancelled it, for fear that he would not attract such a large crowd. For the most part, he has stuck to campaigning in the countryside, where events are easier to stage-manage. On most mornings the sky over Harare is filled with the roar of rotorblades as the white presidential helicopter speeds off to another rural rally, escorted, just in case, by two well-armed military choppers.

Mr Mugabe's rallies are joyless affairs. Peasants are ferried in on the backs of government pick-up trucks. Schoolchildren must miss lessons, if there are any lessons to miss. Once assembled, they are subjected to one of Mr Mugabe's raging rants, accompanied by much waving of the clenched fist which is the ZANU symbol. No law bars Mr Mugabe from abusing his opponent, so he calls him, among other things, a “white man masquerading as a black”, “a puppet for his colonial master”, a “tea boy for his white *baas*”, “a saboteur” and, of course, a “terrorist”.

When addressing unsophisticated audiences, Mr Mugabe makes sure to throw in a bit of mumbo-jumbo. At a rally in eastern Zimbabwe, for example, he threatened that “If you vote for Tsvangirai, you will be visited by goblins.” At another rally, he promised to rid the country of witches. And everywhere he goes, he predicts that his programme of land seizures will somehow make Zimbabwe prosperous.

A new start, or another beating?

In a country where dissent can spell death, no opinion poll can pretend to be reliable. For what it is worth, unofficial surveys suggest that 70% of voters back Mr Tsvangirai, whereas only 25-30% say they favour Mr Mugabe. Diplomats speculate that Mr Mugabe may have already secured an extra 10% of votes by fiddling the electoral roll, and that he may steal another 20% by stuffing ballot boxes and through creative counting. So predictions are guesswork.

If Mr Tsvangirai wins, the army may not let him assume office. The army chief, Vitalis Zvinavashe (another beneficiary of the war veterans' fund), hinted as much last month. On the other hand, if Mr Mugabe “wins”, neither the outside world nor ordinary Zimbabweans will believe he did so fairly. Cities such as Harare and Bulawayo could explode. Mass protests might force Mr Mugabe out of office—Zimbabweans remember what happened to Slobodan Milosevic. But they also remember what happened in Tiananmen Square, and wonder whether Zimbabwean troops, if ordered to fire on demonstrators, would obey.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

School vouchers

A Supreme opportunity

Feb 21st 2002 | CLEVELAND AND WASHINGTON, DC
From The Economist print edition

Education reform in America depends on vouchers. Vouchers now depend on nine justices' opinions

Get article background

ON FEBRUARY 20th, America's Supreme Court heard opening arguments in its most important schools case since *Brown v Board of Education* 48 years ago. In *Brown*, the court ruled that young Linda Brown could not be excluded from a decent school because she was black, paving the way for school desegregation. In the current case the court has to decide whether poor children (many of them black or brown) can use school vouchers in private religious schools—or whether they must remain trapped in failing public schools. The consequences for the Linda Browns of today could be equally far-reaching.

The question at the heart of the case is whether vouchers that allow parents to send their children to religious schools violate the constitution's separation of church and state. The example that the justices are being asked to consider—that of Cleveland—could hardly be more perilous for supporters of school choice. In Milwaukee, which also has a large school-choice programme, a third of the 10,000 participants are enrolled in non-religious private schools. But in Cleveland almost all the participating private schools are affiliated with religious organisations. When the Cleveland programme was first set up, a quarter of scholarship children attended non-religious private schools; now, largely because two private schools have opted into the public system as charter schools, only about 4% of voucher pupils attend non-religious private institutions.

Means of escape

The Cleveland voucher programme was originally set up as a response to the catastrophic failure of the city's public schools. In 1995 the system performed so badly, failing 27 out of 27 performance measures, that a federal court ordered the state to take it over. The state decided on a modest experiment: to give parents a voucher that could be used to send their children to a range of schools, including suburban public schools and local religious schools.

Seven years later, the Cleveland public school system remains a disgrace. Only a third of its pupils make it to the end of the course. Two numbers hang over it as a constant reprimand: one and 14. The city's public-school children have less than a one-in-14 chance of graduating on time and being able to perform adequately at basic subjects. But they have a more than one-in-14 chance of being a victim of crime during their years in school.

Vouchers are providing a large number of Cleveland's children with the means of escape. In the current school year the state awarded vouchers to 4,456 students from kindergarten through eighth grade (roughly, ages 5-14), most of them from families living at or below the poverty line. The programme is hugely popular and vastly oversubscribed, despite the fact that even the poorest parents have to contribute to take part. Students whose family income is below three times the poverty line receive vouchers worth 90% of private-school tuition. All other students receive vouchers worth 75% of tuition.

Most parents who take part are happy with the results. A 1997 study by three academics—Jay Greene of the Manhattan Institute, William Howell of Stanford University and Paul Peterson of Harvard University—

showed that 66% of voucher parents were “very satisfied” with the academic quality of their new schools, compared with less than 30% of public-school parents. A further survey by Mr Peterson in 1999 revealed that almost 50% of voucher parents were very satisfied with their children's schools, compared with less than 30% of non-voucher parents.

Academic results are a more slippery measure of performance, since most voucher programmes are too small and short-lived to produce definitive results. But even in this murky area the results look positive. A 1999 study by Kim Metcalf of Indiana University found that voucher students showed a small but statistically significant improvement in their achievement scores in languages and science. Studies of programmes elsewhere in the country suggest bigger improvements.

The voucher programme may also be having the incidental effect of promoting racial integration. Cleveland has long been one of the most racially divided cities in the country, and earlier attempts to deal with this through court-ordered busing only hastened white flight to the suburbs. But the voucher programme may be succeeding where judicial fiat failed. Another study conducted by Mr Greene found that voucher schools were more racially integrated than regular public schools.

Religion rears its head

From the outset, however, one problem has loomed large. In January 1996, the American Federation of Teachers challenged Cleveland's school-choice plan on the grounds that it provided state support for religion. In 1999 Ohio's Supreme Court upheld the constitutionality of the programme; but in late 2000 a federal court struck it down by a 2-1 vote, on the grounds that it had the “impermissible effect of promoting sectarian schools”. (Judge Solomon Oliver has gone further, calling voucher plans a form of “government-supported religious indoctrination”.) The Supreme Court is now hearing Ohio's appeal of the federal-court decision.

Opponents of the voucher system point to one overwhelming fact: that more than 90% of vouchers go to religious schools. Voucher parents, they argue, have almost no choice but to send their children there. Religious schools also get a huge opportunity, courtesy of public money, to get their message across to children. If this does not constitute a breach of the wall between church and state, what does?

Supporters of school choice reply, first, that the aim of the programme has nothing to do with religion: it is to improve the education of the city's children, particularly the poorest. All local children below a certain age are eligible to take part in the programme, regardless of their religious beliefs. The only restriction is that the programme is weighted towards the poorest.

Their second response is that the people who decide where the money is spent are individual parents. It is true that most (though not all) of the private schools available are religious. But people who are violently averse to religion can send their children to public schools, which are also trying to introduce a measure of choice through charter schools and the like.

The third rebuttal is that the people who designed the system tried to involve as many non-religious schools as possible, including for-profit private schools and suburban public schools. Their aim was to expand choice, not to subsidise religion.

Supporters of vouchers add another point which further complicates the debate: that religious schools already receive large sums of public money. Joyce Needham, the principal of St Ignatius Elementary in Cleveland, says she cannot understand why there is so much fuss about vouchers. Her school already gets public money to help pay for special education, teacher training and even textbooks. The Supreme Court has ruled that such public support for parochial schools is constitutional. How are vouchers different?

Nevertheless, the dominance of religious schools in the Cleveland experiment raises important questions. Why has this happened? Would it happen elsewhere, if vouchers are allowed? And are religious schools using the programme, as Judge Oliver fears, to indoctrinate children?

Religious schools have come out on top in the Cleveland marketplace for three reasons. The first is that Cleveland, a blue-collar city that attracted a huge wave of white ethnic groups from southern and eastern Europe in the late 19th century, is one of the most Catholic cities in the country. The second reason is that the voucher is limited to a mere $2,250—far less than the average cost of educating children in public schools. This gives a huge advantage to Catholic schools, which already have buildings and

teachers in place. It also discourages for-profit schools from jumping in. Two for-profit private schools that took part in the programme at first later chose to become public charter schools, getting far more money per pupil. Other would-be private (and secular) entrants have been put off by the legal cloud hanging over the programme. In Milwaukee, since the cloud lifted four years ago, 19 new schools have been set up by private companies.

The third reason is that suburban public schools flatly refused to take part in the voucher programme. George Will, a *Washington Post* columnist, makes a nice constitutional point here. If the Supreme Court rules that the voucher programme is unconstitutional on the grounds that 96% of children end up in religious schools, it will essentially be allowing a third party (the suburban public schools) to exercise a veto over a programme that was intended to be neutral as regards religion.

Indoctrination or education?

All this suggests that Cleveland's experience is unlikely to be replicated exactly across the country. Increase the face value of the voucher, and you are likely to tempt more private companies to invest in education. Introduce vouchers into cities that do not have a long-established Catholic population, and you will get a different result. But religious (particularly Catholic) schools are still likely to play a disproportionate part in the voucher movement if the Supreme Court upholds the Cleveland experiment—just because they are established in the inner cities, where vouchers are most urgently needed.

This raises the question of “indoctrination”. Certainly some religious groups have tried to hijack the programme. The Golden Christian Academy taught almost exclusively from videos produced by a private Christian school in Florida. An Islamic school taught fundamentalism and knowingly hired a convicted murderer. But in both cases the Ohio Department of Education stepped in to close the schools. Schools cannot take part in the programme unless they possess a state charter.

As for the Catholic schools that dominate the programme, these are clearly schools first and Catholic second. Parents choose them, first and foremost, because they have decades of experience in providing a good education for inner-city children in a safe and disciplined environment. The graduation-rate for their pupils is 99.6%—against around 30% in the public schools. Yes, they have crucifixes on the walls; yes, they expect children to be present for religious ceremonies (although they do not insist that they take part). But they are hardly hell-bent on making converts. One priest points out that he cannot even get his own parishioners to turn up to mass. Why should he suddenly be more successful with voucher children?

The Supreme Court's decision is not due until late June, and the outcome is hard to predict. But a positive ruling would dramatically change the landscape of education in the United States. It would energise a voucher movement that has been frozen, possibly doubling the number of children taking part in a couple of years. It could also revive a public-school system that has languished, in part, because it has been shielded from competition.

And if the Supreme Court rules against vouchers? Then those two dismal numbers—14 and one—will continue to hang over Cleveland for years to come.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

The economy

Yo-ho-ho!

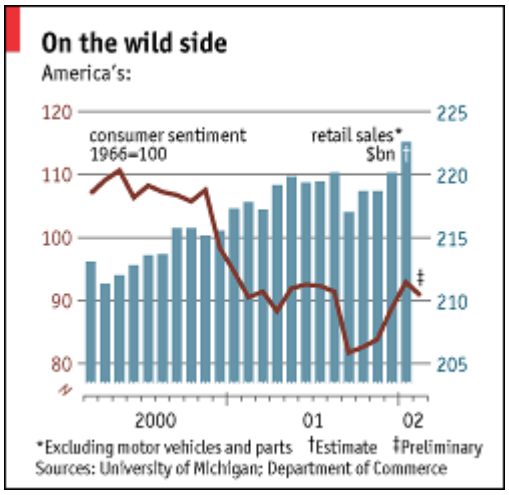
Feb 21st 2002 | WASHINGTON, DC
From The Economist print edition

Can America's high consumer spending be sustained?

“THE swagger of the legendary American consumer is starting to look more and more like that of a drunken sailor.” Thus Stephen Roach, one of Wall Street's gloomier analysts, on the extraordinary resilience of consumer spending in recent months. Despite September 11th, consumption was strong in the last few months of 2001, boosted by zero-financing deals on car purchases. When these deals ended, economists expected a sharp slowdown again. Instead, spending appears to have stayed healthy well into the first quarter of 2002.

Overall retail sales in January lagged slightly behind December's pace, as car purchases continued to fall. But with cars excluded, retail sales grew by a respectable 1.2% over December. And December's sales were themselves revised upwards. According to economists at Morgan Stanley, overall consumption probably grew by an annualised 6% in the fourth quarter of 2001, while January's figures suggest it is on track for growth of around 1.2% in the first three months of 2002. The average of these two quarters—3.6%—would be more than twice as high as the average annualised consumption growth for the last two quarters of a typical post-war recession. What is more, weekly chain-store statistics suggest consumers continued to reach into their wallets in early February. Can this go on, or will it all end in a nasty hangover?

One reason for robust spending is that consumers' wallets have been hit less hard than many expected. Although the unemployment rate rose sharply at the end of 2001—from 5.0% in September to 5.8% in December—and real wage growth was flat, household disposable income was boosted by lower energy costs and tax cuts. But, unusually for a recession, Americans have also saved even less. The household saving rate plunged from 4.7% in September to 1.0% in December.



One reason is clearly that low interest rates (and zero-financing packages) made borrowing more attractive. Millions of Americans also took advantage of low interest rates to refinance their mortgages, tapping wealth tied up in their houses and cutting monthly mortgage expenses. Millions more took advantage of the car deals: durable goods, such as cars, made up over 90% of the spike in consumption at the end of 2001.

Economists at Goldman Sachs offer two further explanations of why consumers are so keen to spend. Perhaps, they argue, Americans after September 11th have a greater sense of their own mortality and so are less keen to save for retirement. Alternatively, they have an over-rosy expectation of future asset returns. Between 1982 and 1999 a 60-40 mix of equities and bonds would have generated annualised returns of more than 15%. If consumers expect these returns to continue, they may be satisfied with less saving.

Unfortunately, these consumption-boosting factors are unlikely to endure. As the horror of September 11th fades (and assuming no further attacks occur) people will start remembering their retirement—and their indebtedness—again. As investors experience more low returns, they may become less optimistic about future investment yields. With mortgage rates rising, refinancing is likely to slow.

All this suggests that consumer spending is unlikely to surge this year. Consumers themselves seem to recognise this. According to the latest report from the University of Michigan, Americans think their

current condition has improved, while their expectations of the future have fallen. The great unknown is whether consumers will soberly rein in their spending, or collapse in a drunken haze.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

The New Orleans mayor's race

The Big not-so-Easy

Feb 21st 2002 | NEW ORLEANS
From The Economist print edition

Can anyone clean this city up and turn it round?

AP

Nagin, setting the pace

PROMISES to end politics-as-usual are a time-honoured feature of politics-as-usual in New Orleans. But whoever wins this year's race for mayor, to be decided on March 2nd, had better be ready to deliver. Ray Nagin, a businessman, and Richard Pennington, on leave from his job as police chief, are running for the city's top job at a time when its economy is stagnating. Whichever of these political neophytes is elected will have to contend with crumbling streets, disappearing jobs and a byzantine political culture, based on patronage and laced with corruption, which has withstood all previous attempts at reform.

The city can no longer afford such antics. For decades, New Orleans could rely on the oil and gas industries to supply steady, high-paying jobs; but in recent years thousands of those jobs have either moved to Texas or disappeared altogether. In December, unemployment stood at 5.5%. The city's port continues to bustle, moving 32m tons of cargo last year, but recession has slowed traffic and the port will suffer if George Bush pushes ahead with tariffs to keep out foreign steel. Tourism has produced a host of new low-wage jobs, but the technology and manufacturing companies that underpin the south's dynamic economy have gone elsewhere. New Orleans's woes are evident not just from the lack of construction cranes on the skyline, but from the number of young exiles whose distinctive accents can now be heard in bars and restaurants in more thriving southern cities.

When the current mayor, Marc Morial, first took office in 1994, New Orleanians were too anxious about murders to worry much about economics. So the mayor lured Mr Pennington away from Washington, DC, to be his police chief, and together they presided over a halving of the city's crime rate. But Mr Morial was less aggressive about fixing blighted housing, repairing streets and developing new jobs, and his supporters benefited handsomely from government largesse. When he asked voters in October to amend the city charter and let him run for a third term, they roundly rejected him. That set off a scramble among 15 would-be successors, virtually all of whom agreed that the city's slow economy was the most important issue facing the next mayor—and virtually none of whom knew what to do about it.

In Louisiana's convoluted election system, all candidates run against each other in an open primary, and the top two finishers compete in a runoff. At the outset, hardly anyone expected Mr Nagin, the general manager of the local cable-television company and managing partner of the city's minor-league hockey team, to survive the first round. He got into the race late, and most voters knew him only from his TV spots, where he walks at a pace markedly faster than the leisurely one New Orleanians prefer. If Mr Nagin was trying to come across as fresh and energetic, it worked. Buoyed by newspaper endorsements and his own debating skill, he surged ahead and won the primary. Mr Pennington, widely respected for fighting crime and cleaning up a corrupt police department, finished six points behind him.

Ever since, all the buzz has been about Mr Nagin, and Mr Pennington's campaign has struggled. His camp first tried to tar Mr Nagin as “Ray Reagan”, a closet Republican—fighting words in this overwhelmingly Democratic city. Later, it began showing an old video clip in which Mr Pennington was lavishly praised by Mr Bush. Worse, the police chief's public appearances have been awkward. On the day before Mardi Gras, Mr Pennington stood in front of cameras and read a statement accusing Mr Nagin of unethical business practices; he then declined to elaborate, and ducked into a waiting car. This odd spectacle was the talk of the parade routes that night and the following day.

Outsiders often observe that New Orleanians consider politics a form of entertainment, but the real reason why people watch so intently is that the stakes are high. Mayoral appointees directly control the airport, police department, water system and a host of other agencies, and a struggling private sector offers few competing sources of power. So the fate of New Orleans lies, to a greater degree than in other cities, in the hands of a single politician. In the short term, voters still have to divine whether Mr Nagin or Mr Pennington would use the mayor's office to more beneficial effect.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Cremations in Georgia

Stacked like cordwood

Feb 21st 2002 | ATLANTA
From The Economist print edition

Where the inspectors didn't reach

Reuters

And there may be more bodies in the lake

LAST Friday a woman walking her dog in Noble, Georgia, in northern Walker County, found the remains of a human being. She was near the grounds of Tri-State Crematory, a family-owned business that received bodies from funeral homes in Georgia, Alabama and Tennessee. State environmental officials had received a similar complaint last November and investigated, but found nothing unusual. This time investigators found more corpses. And more. And more. “There were bodies stacked like cordwood, just discarded and thrown in a pile,” one told reporters. On Monday, police opened four steel vaults packed with human remains.

Almost 200 bodies have been found on the crematorium's 16 acres, and officials expect to find more than 300—not counting, yet, any bodies that may have been thrown into a nearby lake. Forensic specialists, some of whom had been working at the World Trade Centre site, have arrived to help identify remains, and an 8,000-square-foot portable morgue has been obtained from Maryland. Anxious families have been bringing in urns received from Tri-State Crematory. More than a dozen tested so far contained not human ashes but powdered cement or dirt.

The crematory's owner, Ray Brent Marsh, has been charged with 16 counts of deception for failing to perform crematorium services. Mr Marsh inherited the business in 1996 from his parents, and all three have been described as upright citizens: his mother was named Citizen of the Year for Walker County in 1995. The Marshes are descendants of the first black child recorded in the county.

Mr Marsh is reported to have said that his incinerator stopped working. Officials have speculated that he was trying to save the $25 it would cost to cremate each body, but that does not explain why investigators also found caskets, dug up and opened, on the Marshes' property, and mummified bodies a decade or more old. A hearing has been postponed until Mr Marsh finds a lawyer.

The state has offered to pay the costs of identifying the bodies. Roy Barnes, the governor, has also promised to inspect the funeral homes that sent bodies to the crematory. Georgia faces its own liability risks. In 1995 the state Funeral Services Board investigated Tri-State Crematory for not having a funeral licence. Charges were dropped because the crematory dealt only with funeral homes, not the public. For the same reason, it was not subject to state inspections. Georgia has only two inspectors for more than 700 funeral homes.

Mr Barnes says he will tighten the laws on Georgia's growing cremation industry. The United States as a whole, and the south in particular, is warier of the practice than Britain is. But a combination of environmental worries, loosening of church restrictions and penny-pinching—full burials with a funeral can cost several thousand dollars, cremations $1,200 on average—has changed minds. Since 1972, the percentage of bodies cremated each year has quintupled. The Cremation Association of North America predicts that 27% of deaths in Georgia will be followed by cremation in 2010, up from 10% in 1995. After this week's discoveries, it may have to revise that forecast.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Lexington

A nation of volunteers

Feb 21st 2002
From The Economist print edition

IN HIS 1961 speech to Congress, John Kennedy promised to put a man on the moon in ten years, even though most space scientists had no idea how to. In a similar spirit, George Bush, in his 2002 state-of-the-union speech, suddenly called on all Americans to give two years of their lives to voluntary national service, and announced a new bureaucracy to help them do it.

This came out of the blue. Does the president really want America to have some sort of national service? And if he does, what should one think about it?

Actually, America has a pilot version of national service already. It is called Americorps, and was Bill Clinton's pet project. Around 50,000 young Americorps volunteers serve full-time in charities. The programme pays them a small stipend for living costs, and at the end of their time they get $4,725 a year towards university expenses. Mr Bush wants to turn Americorps into more than a pilot scheme by adding 25,000 volunteers and boosting its budget by 50%.

Compared with the 110m Americans who volunteer for a few hours a week, this is still tiny. But there are other pieces to the jigsaw. In the “Work Study” scheme, poor students can pick up extra cash by taking part-time jobs at college. At present, almost all the jobs are in the universities themselves; Mr Bush would require half of all work-study funds to go on community-service jobs. This is a bigger deal. Since 1m students are in the programme, Mr Bush's plan would increase the number of social-service volunteers by 250,000. At the other end of the age-scale, he wants to inveigle twice that number of retired people back into teaching by promising that anyone who tutors a child for 500 hours can earn a college scholarship for a grandchild.

The president's plan conflates two separate ideas. One is national service—full-time volunteer work, usually done by 18-25-year-olds and organised by federal bureaucracies. Americorps is a national-service idea. The other is private volunteerism, usually undertaken for a few hours a week, at any point in your life, and through local bodies such as churches. Work Study, “Senior Corps” (the teaching programme) and the target of two years' service are all features of volunteerism, not national service.

Partly because of this intellectual muddle, supporters of “real” national service prefer a competing proposal. A Democrat, Evan Bayh, has teamed up with a Republican, John McCain, to propose a bill in the Senate that would not mess around boosting Americorps by a mere 50%: they would quintuple it by 2010. Unlike Mr Bush, they also include a military component. In exchange for $18,000 in cash or a scholarship, recruits could serve 18 months in the armed forces (much shorter than the current term of service), followed by a spell in the reserves. The idea is to bridge the gap between civilian and military elites by making it easier to move between university and the armed forces.

The merits of the rival plans are finely balanced. The president's would encourage a wider range of volunteers by including retired people (to be fair, the Bayh/McCain bill also expands “Senior Corps”). On the other hand, it would be a bits-and-pieces affair, with volunteers signing up in short bursts, locally. The senators' plan would probably produce a more reliable supply of volunteers in the places America needs them most, the inner cities. Either way, both proposals have a lot going for them.

But before debate can be joined, supporters of both ideas face more fundamental objections. Critics argue that even the weaker Bush plan would undermine voluntary service by “federalising volunteerism”—ie, imposing a new government bureaucracy on it. And they fear it could harm civil society itself (the network of local institutions where most voluntary activity takes place) by making the government the main link between individuals and the society they offer to help. Dick Armey, the number-two Republican in Congress, has called the whole idea “obnoxious”.

Such views are rooted in basic political beliefs and there is not much arguing with them. Defenders of national service can only respond in kind. Will Marshall, a “New Democrat” and one of the first proponents of national service, claims that the idea has the virtue of avoiding the pitfalls of left and right. It encourages lots of bottom-up community work, without the sense of entitlement and dependency that is the besetting fault of the left. But because voluntary work would be encouraged and organised by the government, it avoids the let-them-eat-cake indifference that can be the besetting sin of the right. National service is, in short, the quintessential “third-way” programme. Whether that is a recommendation or not depends on your point of view.

Still others claim national service is needed because civic involvement in America is in long-term decline (as evidence, they cite falling voter turnout and Robert Putnam's argument that Americans are joining community organisations less than they used to). It seems unlikely that national service will encourage people to vote. But defenders of the idea are on firm ground when they say that the practical objections to national service are wrong. This may prove to be the clinching argument.

Far from undermining the voluntary sector, greater federal involvement seems to encourage it. That, at least, is what has happened with Americorps. The organisation's rule of thumb is that each of its volunteers should produce three extra volunteers in the charitable organisations they work with, since the biggest single encouragement to volunteerism is getting to hear about a programme that works.

Mr Bush's call will help spread the word. But local word of mouth is what really matters. National service, if it is to take off, will have to persuade millions of local voluntary bodies to co-operate with federal bureaucracies. Kennedy's summons to space only needed to jolt a few thousand scientists into doing something they did not know they could do. Mr Bush's call is less spectacular, but even more ambitious.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Emigration from Latin America

Making the most of an exodus

Feb 21st 2002
From The Economist print edition

Latin America is exporting more people than ever before. That is sad, but not wholly bad

ANXIOUS to escape their country's economic collapse, thousands of Argentines are queuing up at foreign embassies in Buenos Aires, seeking a passport or a visa. Some want to retrace in reverse the journey made by great-grandparents from Spain or Italy a century ago. Others, from the country's 250,000-strong Jewish community, are prepared to brave Palestinian suicide bombers and join the 80,000 Argentines living in Israel.

Argentina's haemorrhage is part of a new wave of migration from South America. Rather than to flee political oppression, most of these migrants leave because of lack of economic opportunity, or to escape crime and violence. Some 600,000 Colombians have left their country over the past three years, fleeing war and unemployment, for example. Ecuador has seen 500,000 leave between 1999 and 2001. To some observers of the region, this exodus represents an indictment of the failure of democracy or of economic reform—those who can, vote with their feet. Today, only in Brazil and Chile is there little net emigration (ie, after subtracting inflows).

In fact, migration has a long history in the region. Many Mexicans began to seek work in the United States half a century ago. Tens of thousands fled dictatorships in South America's southern cone in the 1970s. Those countries in the region that were better-off acted as magnets to their neighbours: Argentina, for example, has about 1m immigrants from neighbouring countries. During its oil boom in the 1960s and 1970s, Venezuela absorbed more than 500,000 Colombians, as well as Caribbeans. Mexico has long attracted Central Americans, while 500,000 Nicaraguans work in Costa Rica, and 600,000 Haitians in the Dominican Republic.

But over the past two decades, not only has migration accelerated dramatically, but the final destinations of the migrants are now mainly the United States and Western Europe, rather than other Latin American countries. One Haitian in seven now lives abroad. During El Salvador's civil war in the 1980s, one in six of its people migrated to the United States. In 1998, there were about 7.5m Mexicans living in the United States, almost four times as many as the figure 20 years ago, according to the International Organisation for Migration. About 1m Central Americans have also made the journey north since the 1980s, fleeing first wars and then poverty and natural disasters. Some 15m people born in Latin America have now settled in the United States—half the country's immigrants—while 18% of the foreigners in Spain are from Latin America.

The new emigrants include middle-class, educated workers, as well as the poor. This brain drain has

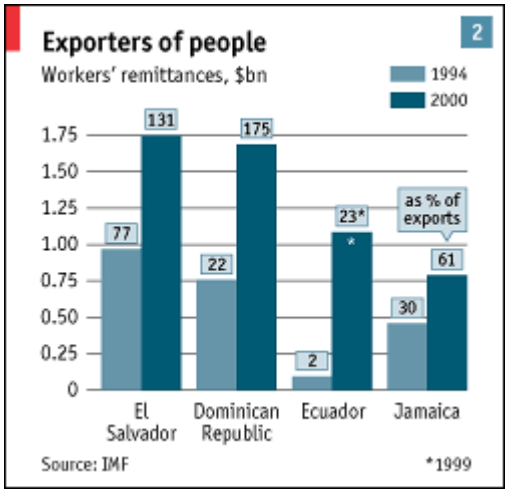
increased anxieties that Latin America is losing some of its most productive citizens. Ecuador's government says that 10,000 teachers have left the country since 1998. Over 70% of Peruvians finishing a PhD in American universities intend to stay in the United States, according to government figures.

Lost investment

There are many businessmen and professionals among the 150,000 Venezuelans unofficially estimated to have left home since Hugo Chavez, a populist, was elected president of Venezuela in 1998. Many have sought solace in Miami, joining their counterparts from Nicaragua and Cuba who fled previous, more radical, revolutions. Emigrants from South America tend to be more educated than those from Central America, says the United States' Census Bureau. Emigration represents lost investment in human capital, as well as lost taxpayers and potential leaders.

But, sad though it may be, the effects of emigration are not all bad, and nationals abroad can be turned into valuable assets for their home countries. First, as migration has increased, so has the money sent back home. According to the World Bank, remittances to Latin America and the Caribbean totalled over $15 billion a year in 2000, ten times more than in 1980. The true figure may be much higher, since cash is often sent via informal routes. Remittances have become a far more important source of revenue than foreign aid (see chart, on previous page). In several smaller countries, they are a bigger source of foreign exchange than foreign investment or even exports (see chart 2). According to Susan Martin, of Georgetown University, each dollar sent home translates into three or four dollars of growth as it works its way through the local economy.

Second, the outflow of workers can reduce the excess supply of labour at home. “We don't have a labour market here any more,” says Claudio Peñaherrera, who hires staff for Ecuador's biggest tyre factory, at Cuenca. “They finish their education and they go.” His factory no longer requires applicants to have experience or a high school diploma—and it has doubled salaries to attract new workers.



It is no wonder that governments are trying to legalise more of the human flow. Regional groups such as Mercosur and the Andean Community are discussing steps to make it easier for their members' nationals to work in neighbouring countries. President Vicente Fox of Mexico has asked the United States to legalise migrant workers, in return for policing his country's borders more tightly.

Prodigal children

Remittances, too, are attracting attention. The Inter-American Development Bank estimates that at least $300 billion will be sent home over the next ten years. But that depends partly on the health of rich-country economies. In a recent study, the bank found that the typical Latin American working in the United States earns less than $20,000 a year, but sends home about $3,000 of that. Since September 11th, however, over half those the bank polled said they had sent back less money, a quarter said their income had fallen, and 7% had lost their jobs. Migrants send less money home the longer they stay away, so the flow of remittances depends partly, too, on fresh emigration.

Even so, the first priority is to help migrants transfer money more easily and cheaply. The bank

estimates that transfer costs—often hidden by lousy exchange rates—eat up about 15% of the money remitted to the region. In 1999, three big American money-transmission firms, Western Union, MoneyGram and Orlandi Valuta, agreed to compensate customers who sued them over hidden charges. New competitors, such as the United States' Postal Service and credit unions, now offer flat fees. Development agencies are setting up cheap transfer systems, too.

Back home, most of the money is spent on food, housing or clothing. Governments would like to channel some of it towards investment. Mexican banks have started offering remittance bonds backed by money sent from migrants. State and federal governments have encouraged associations of migrants from the same town. There are over 400 such groups from Mexico in the United States. Guatemala and El Salvador are now encouraging their migrants to get together too.

In Zacatecas, in northern Mexico, the state, federal and local authorities give three dollars for every dollar contributed by migrants' associations for investment projects. In 2000, Zacatecano groups in the United States invested $6m in new roads, schools, churches, water systems and parks. Guanajuato, a state in central Mexico, encourages migrants' associations to invest in small clothing factories at home and covers some of the start-up costs.

Efforts are under way to tap migrants' skills as well as their money. The United Nations Development Programme has launched a scheme to encourage qualified migrants to go home for short stints as teachers, consultants or researchers. In 1992, Colombia's government set up a network of expatriate researchers and engineers, which now has members in 30 countries. It fosters joint research projects, in fields such as biotechnology and robotics, mainly between European and local universities. Uruguay launched a similar programme in December, to draw on some of its 400,000 highly-educated migrants.

Something similar has happened in the private sector, where educated Latinos working in banks or multinational firms can find themselves channelling foreign investment to Latin American countries. For example, Virginia Sanchez, a middle-class Bolivian who migrated to the United States in 1991, and who has gone from being a housekeeper to working as a banker in New York, is now trying to persuade businesses to invest in her home country through the Bolivian-American Chamber of Commerce. If she succeeds, fewer Bolivians may have to repeat her journey.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Colombia's conflicts

Peace hijacked

Feb 21st 2002
From The Economist print edition

The government sends the army against the FARC

Get article background

SIX weeks ago, President Andres Pastrana threatened to call off peace talks with his country's main guerrilla army, the FARC, only to back down in a display of brinkmanship as the rebels agreed to speed up talks on a ceasefire. But on February 20th, Mr Pastrana announced he was ending the talks, and ordering the armed forces to recapture a guerrilla-controlled “demilitarised zone” he had sanctioned to promote peace. Another negotiating ploy? Not this time, it seemed. The president ordered the arrest of guerrilla leaders, while the air force began to bomb and strafe FARC camps and other targets, such as landing strips, in the zone.

The immediate provocation for his action was a particularly brazen kidnapping. Hijackers forced a turboprop aircraft on a commercial flight to land on a road near Neiva, a town close to the rebels' sanctuary. They bundled Senator Jorge Gechen Turbay and perhaps two other passengers into a waiting van. Mr Pastrana blamed the kidnapping on the FARC, who are holding four other legislators hostage. But he also complained that last month, even as they were agreeing to speed up the talks, the FARC had begun a campaign of urban terrorism (applying techniques learned from three IRA men arrested in Bogota last year, say military intelligence). A score of civilians were killed by car bombs.

Most Colombians long since despaired of the peace talks, which began three years ago but produced no tangible benefits. Their current mood is likely to be reflected in a presidential election in May. Polls show a surge of support for Alvaro Uribe, a hardline critic of the peace process, at the expense of the previous front-runner, Horacio Serpa, who has supported Mr Pastrana on the peace talks. An opinion poll last week gave Mr Uribe 53% of the vote.

The FARC's leaders have always seemed to view the talks as a tactic, rather than as an acceptance of democracy. They may respond to Mr Pastrana's decision with further urban attacks. But there are fears, too, that right-wing paramilitary vigilantes (responsible for more killings than the guerrillas) will attack the 90,000 civilians in the rebels' sanctuary, riding on the army's coat-tails.

Mr Pastrana has strengthened the army, partly with American aid. This is officially aimed, so far, at fighting drugs, rather than guerrillas. But the United States is now proposing to train and equip a new army brigade to guard oil pipelines and the electricity grid against guerrilla sabotage. Barring sudden changes of heart, much fighting may lie ahead before Colombia can again think of peace.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Venezuela's armed forces

Enemies within

Feb 21st 2002 | CARACAS
From The Economist print edition

Public outbursts point to discontent in the barracks

Get article background

TIME was in Latin America when a confrontation between a blundering populist president and a militant conservative opposition would inevitably end in a military coup. So public demands by three active-service military officers in the past fortnight for President Hugo Chavez to step down have prompted speculation that a coup is in the works. In fact, these outbursts suggest that the bitter political debate dividing Venezuelan society is, not surprisingly, paralleled in the barracks.

The latest military critic was the most potent one. On February 18th, Rear-Admiral Carlos Molina, whose service record is impeccable, joined the calls for Mr Chavez to go. It is harder for officials to portray Admiral Molina as a sore loser, as they try to do with another dissident, Colonel Pedro Soto, an air-force officer twice passed over for promotion. Admiral Molina may have objected to having been chosen as ambassador to Greece. But, apart from hinting at dark secrets in his personal life, officials could do no better than parrot that all is calm in the barracks, and that the armed forces are 100% behind Mr Chavez.

In fact, military discontent is mounting, though seemingly less so in the army than in the other services. The dissidents complain about Mr Chavez's efforts to enlist the armed forces in his “Bolivarian revolution”; about the president's links with Fidel Castro's Cuba and Colombia's guerrillas; and about what they see as his authoritarianism. Admiral Molina also echoed comments by Brigadier Guaicaipuro Lameda, another officer with a glowing professional reputation, who was sacked this month as chairman of PDVSA, the state oil company. He attacked Mr Chavez's mismanagement of the economy.

Mr Chavez is himself a former army officer who tried to stage a coup in 1992. Though elected president in 1998, he often behaves like a military caudillo. That is undermining one of the achievements of the two-party democracy that Venezuela enjoyed, or endured, from 1958 to 1998. Its corruption and economic failure underlay Mr Chavez's rise, but it tamed and institutionalised the armed forces. Mr Chavez has sought to bring them back out of the barracks. He told them they were no longer “political eunuchs”; his new constitution assigns them “active participation in national development”.

Under the “Bolivar plan”, the armed forces have been given control over a big social programme, ostensibly aimed at alleviating poverty. But there is much evidence, leaked from within, that money from the programme has also found its way into the generals' bank accounts. The auditor-general has reported that, in its first year, much of the $100m spent under the plan went missing. He found padded invoices: “On one receipt, made out for a million bolivars [then about $1,200], they added a nought and made it ten million,” he reported. After clashing with Mr Chavez, the auditor was replaced.

Tolerance of corruption may buy loyalty, or at least complicity, for a time—but at the potential price of stirring discontent in the ranks. Mr Chavez has chosen to build his regime not on strong, independent, institutions but on relations between leader, people and army. With his popularity fast ebbing, and the armed forces no longer monolithic, this three-legged stool looks more rickety by the day.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Canada's native peoples

Power of the Cree

Feb 21st 2002 | MONTREAL
From The Economist print edition

A new treaty settles a long-running row

THERE are only 12,000 of them, but for a decade the Cree Indians of remote James Bay have thwarted the industrial development plans of successive Quebec governments by blocking hydro-electric projects on their lands. When support for secession in Quebec was blowing strong, Cree leaders took wind from its sails by saying that if Canada was divisible, so too was Quebec. The Crees' success at using the courts and marshalling international support became a model for other native peoples (or "first nations" as Canadians call them). It also convinced Bernard Landry, Quebec's premier, that development could come only by negotiation.

This month, those talks ended in perhaps the most important treaty struck so far with a "first nation". The Cree will drop their lawsuits against existing hydro schemes on their land, and no longer oppose plans to build huge new ones on the Rupert and Eastmain rivers, creating 8,000 jobs and increasing by about 8% Quebec's already abundant electricity supply, much of which is exported to the United States. In return, the Cree will receive at least C$70m ($44m) a year for the next half century—and more if electricity prices rise, or mining and forestry projects prosper. And they will be granted power over economic and community development.

The money will be welcome. Although better off than most native communities, the nine Cree villages, 60% of whose residents are under 25, face big housing, employment and social problems. Critics, especially among militant Cree youth, accuse their leaders of having sold out a traditional, semi-nomadic way of life—trapping in the woods in winter, and fishing and goose hunting on the shores of James Bay for the rest of the year. But 70% of Cree voters have backed the deal in a referendum.

In striking the deal, Ted Moses, the Crees' grand chief, may have been encouraged by his predecessor's problems. Matthew Coon Come's leadership of the Cree campaign catapulted him to the top job in Canadian native politics, as head of the Assembly of First Nations. But his attempt to use confrontational tactics nationally has flopped. Might Mr Moses's pragmatism be the future?

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

George Bush in Asia

With due respect, Mr President...

Feb 21st 2002 | TOKYO, SEOUL AND BEIJING
From The Economist print edition

AP

President Bush exchanges plain words with Kim Dae Jung (above) and other Asian leaders

WITH allies like those in Asia, George Bush must have been thinking on his way to Beijing on February 21st, who needs “strategic competitors”? Before arriving in China, that erstwhile competitor, for a two-day state visit, America's president had spent the earlier part of the week trying to bolster the reforming instincts of Japan's faltering prime minister, Junichiro Koizumi, and then braving “frank” discussions (a diplomat's word for a fallout) with South Korea's president, Kim Dae Jung, over how to handle North Korea. It is not that there wasn't also plenty to disagree about in China, from human rights and Taiwan to missile defences and Mr Bush's determination to prevent countries such as Iraq, Iran and North Korea from developing the technologies of mass destruction. But, like many a president before him, Mr Bush is discovering that diplomacy in Asia never quite goes smoothly.

The events of September 11th have cast America's relations with each of the three countries he visited this week in a new light. In Tokyo Mr Bush called the American-Japanese security alliance the “bedrock for peace and prosperity in the Pacific”. Pointedly making Japan the first stop on his three-country tour (Bill Clinton had caused unneeded offence by failing even to visit Japan when he went to China in 1998), he claimed the alliance had “never been stronger”. In some ways that is true. Witness Japan's decision to send support ships to the Indian Ocean, to provide logistical help for America's campaign in Afghanistan. Some in America would have preferred Japan to send its powerful destroyers, but it marked a big shift for Japan.

Japan is also looking for ways to use its coastguard to help police shipping lanes off Indonesia, where piracy and smuggling are rampant. And in December a coastguard vessel fired on what appears to have been a North Korean spy ship, which subsequently sank. America welcomed this new assertiveness, which makes neighbouring China and South Korea queasy. Most encouraging of all, Mr Koizumi has presented such sallies as being in Japan's own interests, rather than actions foisted on it by its big ally. Slightly less enthusiastically, he also backed Mr Bush's stern new line against countries, including North Korea, that are suspected of building weapons of mass destruction. He praised Mr Bush for being “calm and cautious”, in marked contrast to the criticism the president's “axis of evil” remarks provoked from some allies in Europe.

For his part, Mr Bush gave high marks to Mr Koizumi for his intention to carry through much-needed economic reforms. But results are what count. Mr Koizumi was frank in declaring that “Japan has lost confidence in itself”. But that is no comfort to the United States. Even as Mr Bush arrived in Tokyo, Paul

Wolfowitz, America's deputy defence secretary, was declaring in Washington that Japan's continued economic stagnation could eventually hurt American interests in Asia, since Japan's “influence gradually declines and its ability to assist declines with it” (and, he might have added, enables China to increase its influence in the region).

One place where America needs everyone's assistance is in dealing with North Korea. Mr Bush has struck a noticeably chilly tone towards the place. “I'm troubled by a regime that tolerates starvation,” he said this week in South Korea. And though he repeated his offer to talk to North Korea, he also repeated that “we must not permit the world's most dangerous regimes to threaten us with the world's most dangerous weapons”. At Dorasan, only 50 metres from the heavily fortified border, he called on the North to open up to contact with the South.

Many in South Korea would agree with both sentiments. Yet street protests were a constant backdrop to his talks with South Korea's Mr Kim, who finds Mr Bush's plain words jarring. Mr Kim's “sunshine” policy to the North, hoping that promises of economic help will encourage it to end its hostility and isolation, is in difficulties, but any expectation that his visitor would help him revive it by softening his tone proved forlorn. In any case North Korea has so far spurned an offer of talks from both presidents.

Could China help? Though unhappy to see a fellow communist country chastised by Mr Bush, China has no desire for another diplomatic blow-up like the one that followed North Korea's test in 1998 of a three-stage rocket over the Pacific. That event helped make the case for new missile defences in America—a development China opposes in large part because technology that could defend America or its troops in Japan from the North's rockets could defend Taiwan from China—and gave Japan and America an excuse to enhance their military co-operation.

Ironically, as America worries that Japan's weakness enhances China's influence in Asia, China worries that militarily Japan is going from strength to strength. Yet in the wake of the September 11th attacks, China has said little in public about Japan's new military role. It has been equally reticent about America's new military foothold in Central Asia, even while it applauds the war on terrorists that have also stirred up trouble from time to time in its restive province of Xinjiang.

On the whole, September 11th has provided China with a welcome pretext to improve relations with America. But other things have also helped. One is President Vladimir Putin's decision to ally Russia more closely with America, and not just in the fight against terrorism. China had been counting on Russia to fight Mr Bush's plans to abandon the 1972 Anti-Ballistic Missile Treaty. Instead Mr Putin has acquiesced, hoping to win deep cuts in nuclear weaponry before Mr Bush visits Russia in May.

Another factor is President Jiang Zemin's desire for a quiet life at a time when China's Communists are preparing for a change of leadership in the autumn. Mr Jiang sets great store by being treated as an equal by America. Despite differences over Taiwan and the tensions caused last year by the collision between an American spy plane and a Chinese fighter aircraft, Mr Jiang sees Mr Bush as more likely to deliver what he promises than Mr Clinton, whose China policy was more pliant but was forever being hijacked by Congress.

Since Mr Jiang is not without his critics at home, were China's relations with America to turn suddenly sour again, he could quickly find his hard-fought succession arrangements at home unravelling too. (Mr Bush was expecting to meet Hu Jintao, tipped to take over from Mr Jiang as party boss and president). Perhaps this also explains China's decision to tone down its invective over Taiwan. Clearly doing his part to make his China trip a success, Mr Bush had tried to please both sides by promising to “remember our commitments to the people on Taiwan”, while also working “with China in the great task of building a properous and stable Asia”.

American officials no longer talk openly of China as a “strategic competitor”, preferring to stress hopes for constructive co-operation. Yet Mr Bush was blunt in Beijing too. At a news conference he said the Chinese should be free to choose how they worship and he repeated this view in private talks with Mr Jiang. He also wants China to crack down harder on weapons proliferation. America's ambassador to China, Clark Randt, says both countries now realise this is “more important than ever”. Earlier, he had called it “a make or break issue”. Which will it be?

America has long accused Chinese businesses of supplying technology and materials to a whole range of countries (not least the three in the evil axis). It continues to apply sanctions, most recently against two companies for transferring chemical- and biological-weapons technology to Iran. Just over a year ago, America thought it had achieved a breakthrough when the Chinese agreed to publish a list of dual-use

missile-related technologies that would be subject to export controls. The list has yet to appear. Building a stable and prosperous Asia with China will be no easy task.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

Afghanistan terror

A political murder

Feb 21st 2002 | KANDAHAR
From The Economist print edition

Concerns about government unity

THE murder on February 14th of Abdul Rahman, Afghanistan's civil aviation and tourism minister, is not only a blow to Hamid Karzai's interim government, still in its infancy, but it recalls the terror of Afghanistan's turbulent and treacherous past. The country's political history has been rife with coups and assassinations. Over the past century virtually every leader of the country has been either violently deposed or assassinated.

Mr Karzai was not cowed. Within 24 hours, he laid bare what he saw as the treachery against his government. He corrected reports that Mr Rahman had been lynched by a mob of angry Muslim pilgrims, stranded on the tarmac for days waiting for planes to take them to Mecca for the annual *haj* pilgrimage. He said Mr Rahman's killing was an assassination and the killers were a group of senior officials, including the intelligence chief and another general.

“He was killed by people who planned it,” said Mr Karzai. “Some of these people were working for the Afghan security services. We'll put them behind bars, we'll try them, and you'll see that we'll take them to whatever justice asks for.”

Five men have been arrested in Kabul. Others sought by the police left for Saudi Arabia after the attack, along with pilgrims whose anger they had used as a cover for the killing. Afghanistan asked the Saudi authorities to arrest them, and two men have been detained there.

Two men said to have fled to Saudi Arabia are General Abdullah Jan Tawhidi, who was Afghanistan's head of intelligence, and General Qalandar Beg. They, as well as three men arrested in Kabul in connection with the murder, are senior figures in Jamiat-i-Islami, the dominant political faction in the Northern Alliance and in Mr Karzai's government.

Whatever their politics, Mr Karzai has put the killing down to a personal vendetta. Mr Rahman had been a member of Jamiat-i-Islami and a close follower of Ahmad Shah Masoud, the Northern Alliance leader murdered last year. He left the movement several years ago to join the supporters of Afghanistan's deposed king, Zahir Shah. In March the 87-year-old king is set to return to Afghanistan from exile in Italy, to oversee a *Loya Jirga*, or grand council, with the aim of forming a more representative government later this year. But the king's followers may be fatally discouraged by Mr Rahman's killing. An influential supporter of the king in the southern city of Kandahar explains: “We see it as a political murder by those who are opposed to the return of the king because they do not want to cede power.”

Two months into his six-month tenure, Mr Karzai has had to grapple with outbursts of fighting around the country as local warlords have resorted to arms in disputes over power. And he has seen 21 of his own followers killed in an American air raid, which the Pentagon admits was a mistake of flawed intelligence, probably fed by a local Afghan rival. There is a cloud over the British-led international security force after two British paratroopers were said to have shot dead a civilian without provocation. The soldiers said they were fired on first.

Such incidents are to be expected. But an assassination linked to his own regime raises concerns about the unity of the government and the whole country. Tensions and rivalries are likely only to intensify in the coming months as the country prepares for the *Loya Jirga* and thousands of delegates are selected to convene for the meeting in Kabul.

Although the Taliban are definitely defeated as a political and military power, American and local forces are still having to devote their energies to tracking down the leaders, most of whom still remain at large

in southern Afghanistan or Pakistan. The pressure is beginning to tell. Among those who have surrendered or been caught in the past three weeks are the former Taliban foreign minister, Mullah Abdul Wakil Muttawakil, the former governor of Herat and a senior Kandahar judge. Some ten to 15 other Taliban officials are in contact, discussing their possible surrender, according to a senior government aide in Kandahar.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Economist.com WORLD ASIA

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

Returning Afghans

No place like home

Feb 21st 2002
From The Economist print edition

An international programme is helping qualified Afghans to go home

Get article background

A MONTH ago, Abdul Hamid Mobarez, a 70-year-old Afghan, left his cosy life in Paris and went back to Kabul. A writer and former journalist who fled his country in 1989, Mr Mobarez was the first beneficiary of a new programme set up by the International Organisation for Migration (IOM) to encourage qualified Afghans to return home. Mr Mobarez has now started his new job as deputy minister of information and culture. His daughter, a surgeon who also lives in Paris, is currently raising money to set up a hospital in Kabul and is about to go back to teach at the university.

So far, over 3,100 Afghans from 26 countries have registered under the programme, which matches candidates with jobs in ministries, NGOs and international agencies. The most eager to go back are Afghans based in Iran and Pakistan. For those comfortably settled in the United States, Australia or France, however, the choice is harder. It could mean losing the prospect of asylum or foreign citizenship, as well as leaving behind western salaries, comfortable apartments and running water. But according to Shafi Shaker, a San Diego businessman about to start working for the trade ministry, money is not important. Seven candidates have already followed Mr Mobarez, and another 40 are scheduled to go before April. The IOM hopes to send back 1,500 people over the next two years, provided it raises the $9m it is looking for.

The programme pays for each refugee's journey home (although a *sharia* lawyer hired by the justice ministry wants to pay for his ticket and have the shipping of his books covered instead). It also adds $200 to the monthly salary—often no more than $50—paid by returning Afghans' new employers. Ministries and local NGOs, which have trouble competing with international organisations' higher salaries, are especially eager to draw from the programme's candidate pool, which has people qualified in disciplines from teaching and architecture to engineering and medicine.

Despite the goodwill of the Afghan diaspora, matching supply and demand is not easy. The education ministry knows it will need teachers for the next school year, which starts in March, but has no idea yet how many and where. The University of Kabul needs extra teachers but finds it difficult to hire returning Afghans who will receive a higher salary than colleagues who stayed through the years of fighting and hardship. In addition, despite the needs of the provinces, most candidates get no farther than Kabul. According to Daiva Vilkelyte, the programme's co-ordinator, the idea is gradually to expand outside the capital as security conditions and communications improve.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

Maoists in Nepal

The biggest battle

Feb 21st 2002 | KATMANDU
From The Economist print edition

Government in peril after a rebel massacre

Reuters

Arms are not enough

Get article background

IT WAS, by all accounts, the bloodiest and most one-sided battle ever fought on Nepalese soil. Late on the night of February 16th, guerrillas from Nepal's shadowy Maoist movement raided Mangelsen, a town in the far-western district of Accham, 600km (375 miles) from the capital Katmandu. Dressed in camouflage fatigues, faces darkened with soot, they poured down from the hills in their hundreds. They fired rocket-propelled grenades and machineguns looted from an army weapons store in a raid in November, and set fire to dozens of buildings. Of a 57-man army platoon, only three soldiers survived the slaughter. Two contingents of policemen, one in the town, another at a nearby airport, were massacred.

In all, 153 policemen, soldiers and civilians died. The retreating Maoists did not even bother to take the dead policemen's vintage Enfield .303 rifles. The pickings were better at a military arsenal nearby. Hundreds of thousands of dollars were looted from a burnt-out bank. The Maoists bore away the bodies of their fallen, so the authorities do not know how many died.

In faraway Katmandu, news of the attack hit at an eerily bad time. It was the sixth anniversary of the start of the Maoists' “people's war”, and the Nepalese parliament was being asked to approve a three-month extension to the state of emergency declared in November to enable the army to engage the rebels. The assumption by the capital's elite, that the Royal Nepal Army would easily crush the Maoist revolt, had proved dangerously hollow. So too had official statements in the weeks before the massacre, which tended to claim that the authorities were gaining the upper hand over the guerrillas. “Is this an army, or for funerals and honour guards?” raged an opposition Communist MP, Rajendra Pandey.

Others accused the military chiefs of being more interested in Sierra Leone than western Nepal, a reference to the army's help with United Nations' peacekeeping. The army used to be above criticism, seen as a competent force in its own right and for national unity. Now that reputation is tarnished. Ministers too were blamed for ignoring warnings of an imminent attack. The governing Nepali Congress's MP for Accham, Ram Bahadur Bista, said he had begged for reinforcements for the Mangelsen garrison two weeks ago because Maoist forces were seen massing in the area.

The government, though shaken, seems determined to press on. Some $40m in new defence spending was announced last week, but it is not clear how much will be used to fight the Maoists, who anyway have a hold on Nepal's rural poor that cannot be fought with arms. The blow to the government's political credibility may well prove fatal. The prime minister, Sher Bahadur Deuba, is under pressure from within his own party to resign. Nepal's fractious polity looks set to enter one of its alarming periods of instability.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Economist.com WORLD ASIA

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

Food as ambassador

Thailand's gastro-diplomacy

Feb 21st 2002 | BANGKOK
From The Economist print edition

Like the cuisine, like the country

THE Thai government has discovered that foreigners quite like Thai food. There are about 5,500 Thai restaurants around the world. In a plan ambitiously called Global Thai, the government aims to boost the number to 8,000 by 2003. This, it is argued, will not only introduce deliciously spicy Thai food to thousands of new tummies and persuade more people to visit Thailand, but it could subtly help to deepen relations with other countries.

In the United States at least, where the number of Thai restaurants has grown from 500 in 1990 to more than 2,000 now, such ambitions may not come as a surprise. Diplomats in Washington point out that restaurants are often the only contact that most Americans have with foreign cultures. Patrons of the Helmand restaurant in Baltimore, which is run by a brother of Hamid Karzai, the leader of Afghanistan's interim government, are likely to take at least a passing interest in the country as they tuck into Afghan food. North Korea's Workers' Party has also opened several restaurants abroad, intent perhaps to show that at least its cuisine is not evil (no dog dishes, please).

More modestly, the Thai government aims to make it easier for foreign restaurants to import Thai foods, to help them to hire Thai cooks and sometimes to benefit from soft loans. It has been much encouraged that Tommy Tang, a Thai chef working in the United States, has said that he plans to open 200-300 Thai restaurants there during the next five years. Mechai Viravaidya, a Thai senator, has opened a branch in Bucharest of Cabbages and Condoms, a restaurant he runs in Bangkok. The senator's noble aim is to promote birth control and fight the spread of AIDS. Romanian gourmets can only be intrigued.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

Treason in Fiji

Escaping the noose

Feb 21st 2002 | SUVA
From The Economist print edition

The leader of the rebellion in Fiji two years ago pleads guilty

Get article background

AP

Speight's adventure ends

THE death penalty is mandatory for treason in Fiji, but last week was the first time anyone had been convicted of the offence. A judge, donning the traditional black cap, sentenced George Speight to hang for leading a rebellion in May 2000 in which the government was deposed and then held hostage. The rebels' aim was to secure a “Fiji for the indigenous Fijians”, by removing the Indo-Fijian prime minister, Mahendra Chaudhry, and his team.

The army, however, held out against the rebels, although it eventually struck a deal with Mr Speight, promising him immunity from prosecution in return for freedom for his captives. Mr Speight in the end released the hostages, after 56 days of captivity. But he then failed to honour an agreement to return the weapons he and his men had stolen from the army. The courts concluded five months after the failed coup that he had forfeited the right to immunity.

Backers of the attempted coup still play a significant political role in Fiji. In a general election last August, Mr Speight himself was elected as one of six MPs representing the Matanitu Vanua (Indigenous Peoples' Confederacy). He has since been stripped of his seat for repeatedly failing to attend parliament. But the Matanitu Vanua remains in government, ethnic-Fijian parties predominate, and Mr Chaudhry has not been restored as prime minister.

There was never much chance that Mr Speight would actually hang. The new government has clearly been reluctant to come down heavily on the leaders of an insurrection that paved their way to office. Fears that Mr Speight might spill the beans about other backers of the coup may also have played a role.

In court, Mr Speight's Australian lawyer, Ron Cannon, told the judge, “We have been given every assurance that the penalty that you have to announce will not in fact be carried out,” and later, outside the court, he described the death sentence as “just a charade”.

Within hours, a hastily convened Commission on the Prerogative of Mercy met, chaired by the attorney-general, and advised the president to commute the sentence to life imprisonment, which he did. Next day, just to be sure, parliament abolished the death penalty.

Treason charges were also dropped against ten other conspirators, including George Speight's brother Jim and his right-hand man, the SAS-trained Major Ilisoni Ligairi. They received three-year sentences for minor offences of abduction and wrongful confinement. Other ringleaders got 18 months behind bars.

Mr Speight's guilty plea and conviction bring to an end speculation that, in a long trial, he might implicate the big fish behind Fiji's insurrection. The powerful chiefs from Fiji's eastern islands, who were well-known backers of the uprising, remain immune. Mr Speight may end up carrying the can, but the current government is dedicated to pursuing his goal of a “Fiji for the indigenous Fijians”.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

South Africa and AIDS

Stop denying the killer bug

Feb 21st 2002 | CAPE TOWN
From The Economist print edition

iAfrika

Many voices are calling on South Africa's government to change its misbegotten AIDS policy. But will it ever listen?

Get article background

MADIBA, as Nelson Mandela is fondly known, this week marched back into the centre of South African politics. After months of semi-public grumbling about the government's ill-judged AIDS policy, and President Thabo Mbeki's fatal inaction, Mr Mandela this week took off his gloves. “This is a war, it has killed more people than has been the case in all previous wars,” he told a newspaper. “We must not continue to be debating, to be arguing, when people are dying.”

His intervention has caused both delight and consternation. Mr Mandela is still an influential figure in the ruling African National Congress (ANC). When he appears, as he did recently, alongside two doctors who are openly flouting the government's policy, it makes waves. Nor is his the only voice speaking out. For instance, Mr Mbeki's home-affairs minister, Mangosuthu Buthelezi, appealed in parliament last week for an end to vacillation.

The president's critics have been emboldened by challenges to the central government, first from the High Court and then from three provinces, KwaZulu-Natal, Gauteng and the Western Cape, which now provide certain types of anti-AIDS drugs to patients. A row erupted this week in Gauteng, the province that contains Johannesburg, and whose AIDS-prevention mural is shown at the top of the page. Gauteng's ANC premier, Mbhazima Shilowa, openly defied the central government by saying that one drug, nevirapine, which limits mother-to-baby infections, will be available in every hospital in his province. This unusually public split within the top ranks of the ANC could well be the result of Mr Mandela's intervention.

One scene may serve to illuminate the problem. A few months ago the president, on one of his tours, visited Siphetu hospital, high in the hills of the poor and rural Eastern Cape. There, two young doctors briefed him on the health woes of the district. When this correspondent asked them, in front of Mr Mbeki, to estimate how many people died of AIDS-related illnesses in their hospital, they became uncomfortable. “We didn't look at HIV mortality rates. We don't routinely test for HIV.” In private, and insisting on anonymity, one of the doctors conceded that over half of his patients were infected with the virus. Why would he not tell the president and local politicians what he says in private? “Ah, it is very difficult, you know. We cannot say this thing in front of them.”

South Africa has the largest absolute number of HIV-positive people in the world. In KwaZulu-Natal, studies suggest that over a third of all adults may be infected. Yet, from the president down, there is a failure to talk publicly about the scale of the problem. If these people were dying in war, it would be considered an emergency. But South Africa is in denial. Why?

One study, partly paid for by the government and published last October by the Medical Research Council (MRC), suggests that as many as 7m South Africans will have died of AIDS-related illnesses by 2010. The World Health Organisation says that 250,000 people already die from them each year. According to UNAIDS, average life expectancy in South Africa is only 47 years, instead of 66, because of AIDS. Some 5m of South Africa's 44m people have HIV. Even these statistics fail to convey the horror on the ground. Orphanages are bursting with children whose families have fallen victim to AIDS: 2m are expected by 2010. Some companies in KwaZulu-Natal have barred employees from going to more than two funerals a week.

South Africa's government is quick to point out that it is trying to stop the disease. The country, Africa's richest, “spends more on tackling AIDS than any other in the continent,” says the president's spokesman, Bheki Khumalo. In his budget this week, Trevor Manuel, the finance minister, increased spending on nevirapine from not much to 155m rand ($14m). The health ministry has a five-year plan for grappling with the disease. The government accepts that poverty, malnutrition, poor education, badly-treated women, prostitution, scarcity of drugs and other social and medical factors all help the epidemic to spread.

Despite Mr Mbeki's contention that the link between HIV and AIDS is a “thesis”, the health ministry says it works from the normally accepted premise that the virus causes the syndrome. Public education has had some success: many people now know that using condoms, abstaining from sex or limiting the number of their sexual partners reduces the risk. But changing behaviour is much harder.

Although the government has now increased spending on AIDS, this is dwarfed by its spending on, say, crime. It is still doing far too little to fight the disease. First, Mr Mbeki gives no leadership. Second, he denies the scale of the problem. Third, the government refuses to provide anti-retroviral drugs, which prolong life and make an infected person less infectious.

The president's lack of leadership is woeful. Mr Mbeki believes that to talk about AIDS is playing to the media, and his few remarks are so ill-judged that those close to him are desperate to keep him quiet. Mr Mandela's intervention is a sign of wide exasperation. Archbishop Desmond Tutu, believing that “we are fiddling while our Rome burns,” wants a national emergency declared and a minister for AIDS named. One ANC member of parliament, who dared to make public that her daughter has HIV, wants compulsory testing for all sexually active people.

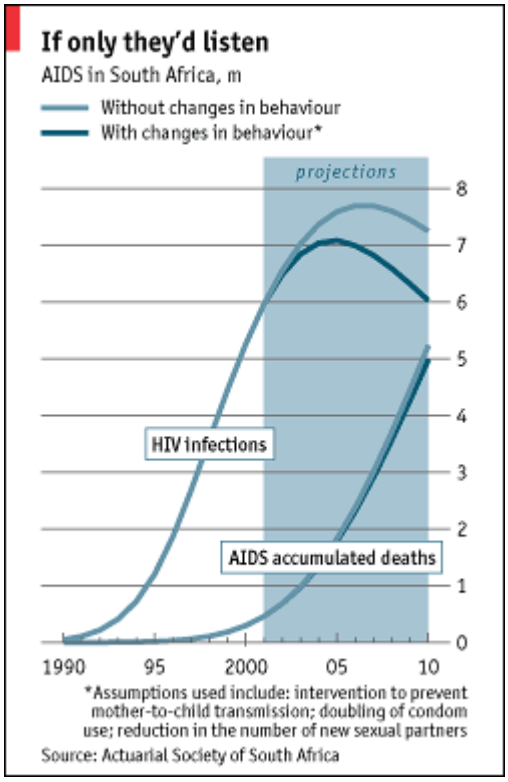
Grievous failings

That will certainly not happen. Voluntary testing could be encouraged if political and other leaders set the example and took tests in public, as in Uganda and Botswana, but Mr Mbeki and his colleagues refuse. The president thinks it a “meaningless game”. Instead, he surfs the Internet for new ideas about the virus, promoting academic debates and eccentric medical views that confuse otherwise clear messages on how to tackle AIDS. His denial of the link between HIV and AIDS is only the most famous part of his muddle. The advisory panel he has set up has offered no new thinking on the disease.

Mr Mbeki appears to deny that AIDS is a big problem. His spokesmen are reluctant to list the disease as a top priority for the country, preferring to talk about the economy, race, housing, poverty, crime and general health problems. He wrote to his health minister last August suggesting that she should consider reducing spending on anti-AIDS measures. He seems to have withdrawn that view since the MRC report, which showed that AIDS is now the leading threat to life and accounted for 40% of all adult deaths last year. That report was first delayed, then rubbished by official statisticians. Malegapuru Makgoba, who heads the MRC, hoped it would “get a meaningful shift in government policy”. He might have known it would not.

For some time, the government has also refused to give anti-AIDS

drugs to all who need them. In December an activist group, the Treatment Action Campaign, took the government to court over its refusal to make nevirapine generally available. The High Court ordered the government to do so. It has not changed its policy of testing the drug only, but there are signs that it may turn a blind eye to its fuller use in the provinces—though it reacts angrily to open defiance, as in Gauteng.



The government still refuses to provide anti-retroviral drugs to infected people. In other countries affected by AIDS, such as Brazil and Botswana, anti-retrovirals are being used to slow the spread of HIV and to improve and prolong lives. In South Africa, the government argues that the costs are too high and, sometimes, that the drugs themselves are unsafe. In October, Mr Mbeki said that anti-AIDS drugs may be “as dangerous to health as the thing they are supposed to treat.”

EPA

Life-giving drops of nevirapine

Few scientists would agree. Such drugs can have horrible side-effects, but they save patients who would otherwise die. They also do not work unless they are taken with clean water and regular meals, both difficult to come by in many parts of South Africa. But that is no reason to restrict them where they can be used safely.

The criticism is so strong that many are bewildered by the government's inaction. It has been described as being in a state of fatal denial: a natural response, possibly, when a problem is so awful that you are not sure what to do about it.

The first difficulty is financial. The cost of providing free anti-AIDS drugs to all South Africans who need them would cripple the government's budget. Health services, though much better than in the rest of Africa, are often rudimentary, and the irregular provision of drugs could cause resistant strains of HIV to develop. Ensuring that drugs are taken properly in parts of the country with poor access to clean water and regular food would be difficult and costly, even when patents are waived or drugs are given free.

Possible answers

One answer to this is outside help. Jeffrey Sachs, a Harvard economist, is a keen proponent of a Global Health Fund that would channel donations from rich countries to poorer ones to help them fight AIDS and other infectious diseases. But governments in sub-Saharan Africa, especially South Africa's, need to ask for help first. Mr Sachs points out that Mr Mbeki's voice is by far the loudest in Africa. If he spoke up, donors would respond.

But Mr Sachs's answer is not the whole one. Effective leadership does not cost money. Poorer African countries, such as Nigeria and Uganda, have set up (admittedly small) programmes to make anti-AIDS drugs more available. And spending money now to limit the spread of the epidemic will produce economic benefits later on. The drugs work for about 70% of the people who take them. With lower dropout rates from school and more university graduates surviving, the country would get economic benefits back.

Another reason for Mr Mbeki's denial may be cultural. His unwillingness to talk about condoms and to encourage people to take HIV tests reflects, arguably, his unease over how outsiders view Africa. During his trip to the Eastern Cape, the president made a revealing speech to students at the University of Fort Hare. He argued that black Africans were still dismissed as less human than their lighter-coloured countrymen. “We are blamed as criminals and seen as human beings of a lower order that cannot subject its passions to reason...as natural-born, promiscuous carriers of germs, unique in the world, doomed to a mortal end because of our unconquerable devotion to the sin of lust.” Mr Mbeki refuses to do more about the epidemic because he believes that outsiders are exaggerating the scale of it.

Can the president's words explain all the government's shortcomings? Not quite. Several members of the cabinet privately admit that the approach is wrong. Leaked documents from the health ministry in September suggested that many there believe the government's policy is “politically dangerous”. But the president alone is able to freeze policy, and loyalty compels most ministers to follow his lead. Only provincial politicians, committees inside the ANC (especially those run by women, who suffer most from AIDS) and other political allies from the left wing, who are farther from Mr Mbeki, are able to argue freely for new policies.

If any one of these problems—lean resources, cultural insensitivity, political sycophancy—was tackled, might the government become more active in its AIDS policy? Surprisingly, it might. If donors begin to pay for successful anti-AIDS programmes in other parts of Africa, Mr Mbeki could be persuaded that South Africa should follow suit and ask for help. And if men like Mr Mandela continue to speak out, the president may realise that it is not just distant racists who grow emotional about the terrible dangers of AIDS, but his own furious countrymen.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Israel and the Palestinians

War outside, and within

Feb 21st 2002 | JERUSALEM
From The Economist print edition

What should Israel do next?

"THEY escalate, so we escalate harder." Thus, Israel's minister of justice, Meir Sheetrit, explained the killing on February 20th of at least 18 Palestinians in bombardments from air, land and sea, on targets in the West Bank and Gaza. Twelve of the dead were Palestinian Authority policemen. The Israeli reprisals came after Palestinian gunmen had killed six Israeli soldiers at a West Bank roadblock the night before. The day before that, Israel had killed seven Palestinians in reprisals for a series of attacks in the West Bank and Gaza that took six Israeli lives. The next day, February 21st, Israel continued fierce attacks on both the West Bank and Gaza, destroying, among much else, the Palestinian broadcasting station.

The violence is now at its highest pitch since the *intifada* began 17 months ago. And it seems destined to rise higher. Mr Sheetrit, a Likud moderate, said that the security cabinet had resolved on an "intensification" of military measures. But these were to be more, much more, of the same, rather than any new form of warfare as some ministers are urging. Natan Sharansky, the housing minister, wants the army to reoccupy Palestinian cities. The minister for infrastructure, Avigdor Lieberman, who vies with Mr Sharansky for the Russian-immigrant vote, advocates even tougher military action. His partner in his far-right faction, Benny Elon, the tourism minister, calls outright for the "transfer" of the Palestinians out of Palestine.

Mr Sharon poured scorn on his own party hardliners at a Likud meeting on February 18th. He asked Yuval Steinitz, a follower of the former prime minister Binyamin Netanyahu, if he wanted Israel to go back into all of Gaza and run the peoples' lives there. He would not, he said.

Mr Netanyahu advocates the extirpation of Yasser Arafat's Palestinian Authority. Mr Sharon, who heard George Bush's views on this matter a fortnight ago in Washington, dismisses this as demagoguery. The Bush administration, say Israeli sources, opposes Mr Arafat's removal for fear of the regional turmoil that would result, at a time when the United States needs relative quiet in the area while it prepares its campaign against Iraq.

Mr Sharon's aides deny he is inhibited by considerations of America's convenience. They admit, though, that he must take account of his Labour Party partners in the government of national unity. Shimon Peres, the foreign minister, and even the hawkish defence minister, Binyamin Ben-Eliezer, would balk at a full-scale reinvasion of all the Palestinian areas.

Although the army's chief of staff, Lieut-General Shaul Mofaz, is reportedly recommending ever tougher measures, other army officers, speaking anonymously, have been suggesting that the time has come to recognise that military means alone cannot provide a solution.

Some ministers and senior officials admit privately that the prime minister does not have a plausible policy for defeating the *intifada*. They admit, moreover, that the public is beginning to realise this. Hence, they hint, the current decline in the prime minister's popularity. And hence, too, the deepening mood of despair.

Discord in the peace camp

Opinions are as divided on the left as on the right. There is discord in the peace camp over a declaration signed by some 200 reservist soldiers refusing to serve in the territories. Many sympathise with the young officers and NCOs, but few support their act of rebellion. A widely advertised demonstration against the government in Tel Aviv on February 16th drew 10,000 people, not a paltry number but only a

faint echo of the mass demonstrations during the Lebanese war 20 years ago.

This week, the Council for Peace and Security, a centre-left group of retired generals and intelligence officials, resolved after much heart-searching to add its respected voice to calls for unilateral Israeli withdrawal from most of the Palestinian areas, as an immediate step pending eventual peace negotiations. The council wants Israel to pull out of Gaza (save along the border with Egypt) and much of the West Bank. Some 50 Jewish settlements would be dismantled at once.

Peaceniks, such as Yossi Beilin, insist there can still be a negotiated agreement with Mr Arafat. Others on the left, as on the right, oppose unilateral withdrawal because it would be seen as a sign of weakness. The unilateralists say signs of weakness are already showing, and withdrawal is the way to recoup Israel's strength.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Iran's foreign policy

Locking them up

Feb 21st 2002 | TEHRAN
From The Economist print edition

Iran's reformist government earns a good point or two

Get article background

TWO weeks after Iran's inclusion in George Bush's "axis of evil", the announcement that some 150 supporters of the Taliban and al-Qaeda, most of them women and children, were being held in a Tehran jail is helpful to Iran's government.

It is, for a start, a pretty good riposte to American claims that Iran helped al-Qaeda members to flee from Afghanistan. By accusing Pakistan, where the detainees apparently came from, of illegally sending al-Qaeda supporters across the border, Iranian officials can insinuate that Pakistan, not Iran, is the regional troublemaker. And the revelation shows that the reformist government, whose efforts at diplomatic bridge-building have been undone as much by Iranian conservatives as by Mr Bush, is still trying to win friends.

The security forces had started arresting suspect aliens and their families long before Mr Bush's speech. One reason for the delay in making this known was that the intelligence people needed time for interrogation. Another was worry about al-Qaeda's reaction: the government suspects the terrorist group of past atrocities in Iran. Kamal Kharrazi, the foreign minister, got round this by averring that none of the detainees were al-Qaeda "members".

Most of the detainees are from Arab countries, though some hold European passports. A few Arabs are said to have already returned to their countries, but others, for fear of prosecution or extradition to America, are much less keen to go.

Reformist officials cite the government's muzzling of Gulbuddin Hikmatyar, a Tehran-based Afghan warlord viscerally opposed to Hamid Karzai's government, as further evidence of Iran's good intentions. But, they give warning, these intentions are not inexhaustible. The reserve of goodwill generated during the war in Afghanistan has been depleted by Mr Bush's state-of-the-union speech.

Iranian officials are also angry that the money, resources and personnel for Afghanistan's reconstruction effort will, with America's blessing, probably be funnelled through Pakistan, despite Iran's keenness to get involved. Even the pragmatic Mr Kharrazi is sounding a little belligerent, saying, on February 18th, that Iran would pursue its "interests" in Afghanistan. Mr Karzai, who is due to visit Tehran at the weekend, may ask what he meant.

Iran's conservative leaders and their supporters have endless opportunities for embarrassing the reformist government. Even the detentions, though they have earned Iran points, are not necessarily incompatible with the original American claims; officials do not deny that their hardline countrymen helped small numbers of fleeing fighters to safety.

Similar hardliners probably had a hand in the seaborne cache of arms bound for Palestine that was intercepted by Israel last month. And the foreign ministry was publicly embarrassed when Britain's nominee for ambassador, whose appointment had been approved, was vetoed by senior members of the establishment.

Worse, the second-in-command of the Revolutionary Guard caused Iran's neighbours considerable anxiety two weeks ago when he obliquely threatened to disrupt the world's oil supply if America attacked Iran. Small wonder that a group of reformist deputies has accused "fanatical elements at home" of co-operating, knowingly or not, with Mr Bush in "pushing the region towards war".

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Spain's North African enclaves

Gibraltar in reverse?

Feb 21st 2002 | CEUTA
From The Economist print edition

Morocco's claims disturb the inhabitants of its two Spanish enclaves

NOW that an agreement on Gibraltar may be reached by Spain and Britain some time this year, Morocco is again pressing its long-standing claim to sovereignty over Ceuta and Melilla, the two little Spanish enclaves on its Mediterranean coast. A majority of the enclaves' 130,000 residents are people who trace their ancestry to the Spanish mainland. They rub shoulders with long-established Muslim families, plus more recent arrivals. Those who treasure their Spanish heritage, and many Muslims too, are alarmed by talk of “colonial occupation”; they would not relish being ruled from Rabat.

Spain's position is that the issue is non-negotiable: its control, it says, dates back more than 500 years. The Spanish army's sentimental attachment to the two garrison towns was cemented in the 1930s, during the Spanish civil war, when General Franco's forces were strengthened by thousands of willing Muslim combatants from Spanish-controlled northern Morocco.

Today, however, the bases in Ceuta and Melilla are of little strategic importance. Though there has been a chill in relations between Spain and Morocco since last October, when Morocco withdrew its ambassador from Madrid citing a range of grievances, relations between the two armies, which hold joint training exercises, are relatively cordial.

Against this background, many in Ceuta and Melilla are distressed by references in the Spanish press to possible solutions to the enclaves' contested sovereignty. New formulas may no longer be quite as unthinkable, now that Morocco has begun its very cautious political liberalisation. On top of these worries, the gradual dismantling of tariff barriers between Morocco and the European Union brings more tangible concerns. Since this will mean cheaper European imports, it undermines the duty-free sales that are an important economic mainstay.

The two enclaves' anomalous status as islands of EU territory on African soil attracts other activities. They lie on a well-beaten route used to smuggle illegal immigrants into mainland Europe, along with hashish from the Rif mountains of northern Morocco. The numbers of sub-Saharan Africans passing through has declined a bit in the past two years. But other would-be immigrants come from as far afield as the Indian subcontinent.

There is also a steady trickle of young Algerians: Melilla is only 100km (60 miles) west of Morocco's technically closed but porous border with Algeria, and Ceuta is just 90 minutes' boat-ride from mainland Spain. It is a dangerous journey. Some 710 people, many of them Moroccans, were drowned as they tried to reach Europe from North Africa last year.

The local governments of Ceuta and Melilla, dominated by conservatives, pay lip-service to a Mediterranean ethos of *convivencia*, or mutual respect, between Muslims and non-Muslims. But since September 11th, Muslim organisations in Ceuta report increased police surveillance, especially now that it emerges that one of the suspected al-Qaeda members detained at Guantanamo is a Ceutan.

Non-Muslim Ceutans have their own demographic worries. As the city's relative prosperity attracts Moroccans, and as Ceutans of Spanish descent leave for Spain, some local politicians argue that the Muslim population will soon be the majority. City officials deny this, but are unable to offer their own

figures on this sensitive religious subject.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

The EU's constitutional convention

The founding fathers, maybe

Feb 21st 2002 | BRUSSELS
From The Economist print edition

Next week European notables set out to start to unroll notions for proposals for plans for a draft of a scheme for a blueprint of a new Euro-constitution

PAST it? Valéry Giscard d'Estaing has a riposte to those who say he is too old to preside over the European Union's constitutional convention, which gets under way in Brussels on February 28th. He is 76; Benjamin Franklin was 81 when he played a leading role in the Philadelphia convention of 1787 that gave birth to the constitution of the United States.

The former French president is only half joking. The regular invocation of Philadelphia by delegates to Europe's convention shows the depth of their ambitions—or pretensions. Unlike the delegates in Philadelphia, the 105 representatives of European governments, parliaments and institutions who will assemble in Brussels are not united around the belief that they are forging a single nation. Those who hope the convention will give birth to a United States of Europe are likely to be disappointed. But the central constitutional question facing the EU would be instantly recognisable to a Madison or a Hamilton: how much power should individual states retain, and how much should be handed over to a central, federal authority?

The EU's 15 countries declared last December that they needed a constitutional convention because “the Union stands at a crossroads, a defining moment in its existence.” Such melodramatic talk suits those keen to press on with “ever closer union”. But the EU does indeed face big challenges, which may require constitutional change.

The first and biggest issue is its imminent enlargement, to take in up to ten new members. Can EU decision-making procedures, originally designed for just six countries, function in a union of 25 or more? Second are the political implications of the euro, adopted by 12 countries last month. Last, there is a growing clamour for a more co-ordinated and effective EU foreign policy, an idea that may come to seem more urgent if America's “war on terrorism” takes off in ways the Europeans dislike.

Uniting Europe

1952	European Coal and Steel Community formed (France, West Germany, Italy, Belgium, Luxembourg, Netherlands)
1957	Rome treaties, leading to...
1958	...European Economic Community and Euratom formed
1967	Three communities united as European Communities
1973	Britain, Ireland, Denmark join
1981	Greece joins
1986	Spain, Portugal join
1990	Eastern Germany joins after German reunification
1992	Maastricht treaty, leading to...
1993	...EC becomes European Union
1995	Austria, Sweden, Finland join
1997	Amsterdam treaty
1998	European Central Bank set up, and...
1999	...euro created
2000	Summit in Nice makes broad rules for managing post-enlargement EU
2002	Euro becomes sole currency of 12 out of 15 members
2003+	Enlargement?

Source: *The Economist*

For federalism and against

A broad division between federalists and anti-federalists in the convention can already be foreseen. The federalists will want a big erosion in the power of individual states to veto EU decisions; an EU constitution based on a legally enforceable charter of rights; a far stronger foreign and defence policy; the development of an EU-wide criminal justice system; and more powers for the European Parliament and the European Commission. Some will argue too for a much bigger budget financed by a directly-imposed EU tax, and a more ambitious pan-European social policy. The anti-federalists will try to fend off many of these notions, and will press for some EU powers to be repatriated to national governments, for example over regional aid, farming and social legislation.

The federalist camp, broadly defined, will plainly have a strong majority within the convention. Mr Giscard d'Estaing's position is carefully ambiguous; some suspect his real goal is to increase the powers of the larger states. But his two vice-presidents—former prime ministers both, Jean-Luc Dehaene of Belgium and Giuliano Amato of Italy—are firm federalists. Both recently signed the “wake-up call for Europe” written by Jacques Delors, a former president of the commission much revered by advocates of ever closer union, which called for “continuous transition towards greater European integration”, notably in economic and social policy.

Messrs Giscard d'Estaing, Dehaene and Amato will form the apex of a 12-person praesidium that will guide the convention over the next year. Representatives of the parliament, the commission and national governments will join them on this steering committee. Keen integrationists are well to the fore. Two praesidium members, Klaus Hansch and Giorgos Katiforis, Euro-MPs from Germany and Greece respectively, have both signed a Socialist manifesto that calls for a “European government to promote the European social model” and to act as a counterweight to a United States that is “drunk with power”.

There are no Eurosceptic anti-federalists on the praesidium and only a few in the convention. One of the latter, Jens-Peter Bonde, a Danish Euro-MP, reckons that only three or four of the 66 convention delegates from the existing members are strongly anti-federalist. Mr Bonde is hoping that he will find more support among the 39 delegates sent from the applicant countries, even though their influence in decision-making will be limited.

Yet, though the convention is likely to produce a document that pushes for much deeper integration, that will not be the end of the story. Its proposals would then have to be debated and reshaped by the 15 national governments, and in many countries probably put to referendums. It is here that any ambitious constitutional blueprint could be rolled up. Five years ago, Britain, Denmark and Sweden might have been the only EU countries that would gag on a big new dose of integration. But the climate has changed

in Italy and Ireland, and may yet alter in France and Germany, both facing elections this year. The dreams of Europe's would-be “founding fathers” are still far from reality.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Economist.com WORLD EUROPE

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

Crime in France

Who can beat it?

Feb 21st 2002 | PARIS
From The Economist print edition

In the first of a series on issues in the French elections, we look at crime

Get article background

YOUNG hooligans in Strasbourg boast of burning cars and taunting the police; the serial killer in a Toulouse courtroom betrays barely a flicker of remorse; the restaurant owner in Carpentras looks bitterly at the flat tyres of her smart new car, punctured on a quiet Friday night by “the little bastards”. Multiply such examples by their constant media coverage and it is hardly surprising that crime is the number-one issue in France's presidential and parliamentary elections, which begin in April. As President Jacques Chirac points out, “security, of people and of property, must be restored, because where there is fear, there can no longer be calm.” This week he talked of a new ministry, no less, to ensure it, new powers for the police and courts, new juvenile detention centres and more.

The political translation is that President Chirac, a conservative forced by the 1997 parliamentary election to “cohabit” with the coalition government of his Socialist prime minister, Lionel Jospin, knows how to embarrass Mr Jospin before the two vie, once again, for the presidency. It is the government, not the presidency, that is responsible for law and order—and it has just admitted that the number of crimes reported last year, from petty vandalism to rape and murder, rose nearly 8%, to more than 4m, over the total for 2000.

Statistics are one thing, their interpretation another. Apologists for the government note that though reported crimes of (non-firearm) violence rose by 23%, that rise has taken them back to a level last seen in 1994—when Mr Chirac was prime minister, cohabiting with a Socialist president, François Mitterrand. Much of the violence, moreover, involves grabbing mobile phones, instruments that hardly existed then but which are now carried by three-fifths of the population. Anyway, what is the meaning of an overall figure that makes no distinction between a dope-smoking student, a recidivist rapist and a financial trickster (white-collar crimes increased by almost 4%)?

For the voters, those arguments matter little. They know that far more crimes happen than are reported. Almost everyone has either been a victim of crime (your correspondent had barely finished this story before he was pickpocketed) or knows one. Or, at least, says so. In the cities, probably truly. In Paris, the worst example, there were 147 offences reported last year for every 1,000 inhabitants; in Nice 138, in Marseilles 122. But things are not all that much better in the countryside: as France's villages grow suburbs of their own, so they produce their own criminals, from pot-peddlers to bank-robbers. Indeed, the band of southern departments, from the Hérault across to the Alpes-Maritimes, rivals the Paris region for crimes against person or property—as many foreign owners of second homes in Provence know, to their cost.

What is to be done? Mr Jospin, like Tony Blair, talks of being “tough on crime and tough on the causes of crime”—but how? France's social problems cannot be solved with a quick fix of more money for the police or by recruiting 35,000 young people—paid the minimum wage—to help patrol their neighbourhoods.

Over the past two generations, the public-housing estates—often composed of brutally stark tower blocks—on the fringes of France's bigger cities have all too often become ethnic ghettos, terrorised by gangs of poorly educated, unemployed young Arabs or blacks, unaffectionately termed *sauvageons*, little savages, by respectable citizens. Just over a year ago two rival gangs, armed with guns, knives and baseball bats, came in from such a fringe to wage a pitched battle in a shopping mall in La Défense, a complex of sleek high-rise buildings on Paris's western edge. It was not just the violence that appalled onlookers, but the arrogance with which for two hours the several hundred

Public-housing estates on the fringes of France's bigger cities have too often become ethnic ghettos,

sauvageons ignored the riot police. No wonder the politicians are worried by youth crime in particular: minors are blamed for 21% of last year's reported crimes, as against 14% ten years ago.

terrorised by gangs

But there is another reason to doubt Mr Jospin's mantra: the reluctance of the institutions of law and order to accept reform. There are surely enough agents of the law to go round: the gendarmerie, answerable to the defence ministry and responsible for the countryside and small towns, numbers 101,000; the national police, answerable to the interior ministry and responsible for towns of 20,000 residents or more, some 146,000; and the municipal police, employed by town and village councils willing to pay the bill, about 13,000.

Alas, rather than co-operate, they jealously guard their respective patches. The result is that gendarmes protect half of France's population, but deal with only a quarter of its crimes. That leaves three times as many for the none-too-numerous police. And who could adjust the figures? Not the president. Mr Chirac has touched on a sensitive topic—and will keep at it.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Economist.com WORLD EUROPE
PRINTABLE PAGE VIEW SPONSORED BY
About sponsorship

Bavaria

Stoiber's special place

Feb 21st 2002 | MUNICH
From The Economist print edition

The home of Germany's would-be conservative chancellor is a state apart

DOES it matter to you, asked a recent poll in *Wirtschaftswoche*, a business weekly, that Edmund Stoiber is Bavarian? Heavens no, said 73% of non-Bavarian Germans. Next question: will his origins affect September's general election, when Mr Stoiber, now premier of his state, will challenge Gerhard Schröder, the Social Democratic incumbent, to be chancellor of Germany? Oh yes, nodded 63%.

The second answer is easier to believe. Even in a country of regional diversity, Bavaria's strong, distinct identity sticks out to the point of irking many other Germans. Its churchgoers are mostly Roman Catholics, north Germany's mostly Protestants. In the mid-19th century it vigorously opposed the rise of Prussia, and it retained a degree of sovereignty even after German unification in 1871. It had its own king until 1918, challenged the central government into the mid-1920s, and in 1949 its parliament voted—alone—against the new federal constitution. Even now it calls itself not a mere *Land*, but a *Freistaat*, a free state.

Its politics too are peculiar. Mr Stoiber's party, the conservative Christian Social Union (CSU), exists only in Bavaria. It has controlled the state parliament since 1962, winning over half the vote in every election since 1970. But, Bavarians numbering only 12m in a country of 82m, nationally it is a junior partner to the Christian Democratic Union (CDU). And the only time a CSU candidate—Franz Josef Strauss in 1980—ran for the chancellorship on the partnership's behalf, he was walloped; not just because he came from Bavaria, but that did indeed play a part in his defeat.

Mr Stoiber, however, is making the most of another Bavarian eccentricity: a still healthy economy. Between 1995 and the first half of last year, Bavaria's GDP grew more than 15%—no miracle, but more than any other state. Today, in a Germany ever more worried by unemployment, Bavaria's jobless rate is lower than any other except next-door Baden-Württemberg's.

The economy is broadly based. Munich, the state capital, is home to the car maker BMW; to Siemens, an electronics and engineering giant that moved from Berlin after the second world war; to a host of high-tech and media firms; and to Germany's two biggest insurers and its second-biggest bank.

It was not always so. In the early years after 1945, Bavaria was a poor agricultural place. Much of it was an economic dead end, bordered by communist East Germany and Czechoslovakia. But state governments in the 1960s and 1970s improved access to energy, set up technical schools and universities and fostered high-tech industry. The presence of Siemens brought in other firms. Relatively new infrastructure has helped to attract more, and the state's landscape of lakes and mountains is a draw for incoming workers.

Under Mr Stoiber, the state government has pursued its active industrial policy, aided by *euro*4.2 billion ($3.7 billion) of privatisation revenues. One product of this is Martinsried, a cluster of biotechnology firms in Munich. But not all is rosy. The economy has shared in Germany's general slowdown. Bayerische Landesbank, half-owned by the state, is the biggest creditor of the Kirch group, a media empire in deep trouble. And large regional disparities persist: Munich and its environs are thriving, but the state's north and east have not recovered from the cold-war division of Europe and the decline of old industries, such

as glass and ceramics. These areas are poorer than the national average.

Christian, social and popular

Still, by national standards, Mr Stoiber and the CSU have a good economic story to sell. Can they overcome other Germans' suspicion of the party's special nature?

Most outsiders see the CSU as deeply conservative, even more so than the CDU. Mr Stoiber opposes Mr Schröder's plans to make immigration easier. His spokesman, Ulrich Wilhelm, reels off a list of reasons. Let Germany import highly skilled workers, from India or wherever, fine; but, for one thing, why look beyond the European Union for lesser skills, when it is about to spread eastwards, broadening the supply?

What about gay rights? With a couple of other states, Bavaria has brought a case before the Constitutional Court, challenging a federal law that allows homosexuals to marry. Bavarian gays, unlike those in most other states, may not seal their union at a registry office as heterosexual couples may; instead, it is an expensive visit to a notary, to draw up a contract, or nothing. Or abortion? Federal law allows it, within limits; Bavaria has tried to make it harder.

Yet the CSU defies any simple label. It sees itself as a popular Bavarian party first, a conservative one second. Its voters come from right and left. Fritz Schösser, a Social Democratic member of the federal parliament, heads the state arm of the DGB trade-union confederation. Union gatherings, he says, get words of welcome from local politicians, the director of the labour office and so on—all of them CSU people.

Nor is “social” an empty word. For several years, the state government, employers and trade unions have run an “employment pact”—successfully, by Mr Schösser's lights. Bavaria's crime rate is low, its police force's clear-up rate high. And the CSU knows how to adapt. It has recently hatched plans to extend nursery care and schooling into the afternoons, making it easier for women to go out to work. Once, that would have been unthinkable.

What of the “Christian” element? Critics say the church still has undue influence: look at the CSU's view of gay rights or abortion, or the crucifixes on the classroom walls in state schools. Yet this is a secular age even in Bavaria. The CSU cannot rely for votes simply on churchgoers: there are not that many around. So whereas the church is softer than the party on immigration, recent federal legislation allowing the import of human embryos for stem-cell research was bitterly opposed by the church but supported by many in the CSU.

Other Germans now seem to recognise the economic and cultural changes that Bavaria has undergone. But trusting its politicians is another matter. The CSU knows it has work to do: with the election in mind, last week's traditional Ash Wednesday rally was less beery and raucous than usual. “Bavaria's image has changed,” says Mr Wilhelm, “but the image of the CSU is yet to catch up.” Can it by September?

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

Switzerland and the UN

Looking outward

Feb 21st 2002 | GENEVA
From The Economist print edition

A referendum may bring Switzerland into the UN fold. But there's a snag

EPA

Democracy, Appenzell-style

FOR more than five decades, Switzerland has been at best a reluctant actor on the world stage. Fuelled by a fundamentalist view of neutrality, it has stayed out of the United Nations and any international club that demanded the surrender of some of its sovereignty for the common good. Now that may change. In 1986, 76% of Swiss voters rejected the government's proposal to join the UN. Facing a new referendum, on March 3rd, over half of them—54%, said an opinion poll this week—agree with the government, most political parties, business and trade unions, that it is time to join.

And yet. The Swiss are keen on letting even the smallest and least powerful of their citizens have a real say in the world they live in. And their constitution—unlike the UN's—ensures this. An amendment, which would be needed, requires not just an overall majority but victory in a majority of the 26 cantons or half-cantons, whether that means the two Appenzells (joint population 68,000) or Zurich (1.2m). Pollsters notoriously find it hard to measure local opinion. But many observers believe that one or two of the more traditional, German-speaking central cantons could tip the balance either way.

Opponents of membership, the same right-wing traditionalists as in 1986, have concentrated on the issue of neutrality again. But this time they distinguish between the “political” UN and its humanitarian and technical agencies. Switzerland already belongs to these organisations, houses many UN agencies and contributes some $300m a year to the UN system as a whole. But what about the “political” UN, which demands submission to the Security Council, where real power rests with five countries or indeed, some would say, one? To judge from the reaction of a largely pro-UN crowd listening to a debate between the foreign minister, Joseph Deiss, and the leading opponent, Christoph Blocher, of the right-wing Swiss People's Party, that argument has some appeal even among the most open-minded Swiss.

The government argues that even a small say in the way the world is run is better than none, and that, with the cold war over, small countries cannot be pushed around as much as before. Besides, Switzerland needs allies in its traditional mediation efforts. And, after all, it already joins in UN sanctions, and, modestly, in peacekeeping missions. Nor are the Swiss the inward-lookers that some suppose. A poll this week showed that 45% have thought, at some point, of emigrating, typically to experience another mentality. Where to? The favourite choice was Australia.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Economist.com WORLD EUROPE
PRINTABLE PAGE VIEW SPONSORED BY
About sponsorship

Turkey and the EU

Her Excellency's unprivate e-mail

Feb 21st 2002 | ANKARA
From The Economist print edition

A hacker has endangered Turkey's relations with the EU. Deliberately?

JUST who hacked into the e-mail of the European Union's ambassador? No one knows—or at least no one is saying—but the affair has escalated into a full-scale diplomatic row between the EU and Turkey, and open war between those in Turkey's elite who want their country to be part of Europe and those who firmly do not.

The e-mail at issue was correspondence between Karen Fogg, the ambassador, and her bosses in Brussels, as well as an array of Turkish bureaucrats, union leaders, academics and journalists. It was leaked to a maverick weekly, *Aydinlik*, which has already published parts and says it has 300 juicy pages more.

Thanks to whom? A “state institution”, says the editor. Not us, insist the usually taciturn armed forces and the national intelligence agency hotly. People in Brussels have been getting heated too. On February 20th, the president of the European Commission, Romano Prodi, rang Turkey's prime minister, Bulent Ecevit, demanding immediate action to stop publication of a third week's extracts of Mrs Fogg's billets-doux. The government says it “cannot” interfere with Turkey's “independent judiciary”. A prosecutor in Istanbul is investigating the hack-in.

The scandal has erupted just as Turkey's relations with the EU were turning distinctly rosier, thanks to its support for the resumption last month of peace talks between the Greek- and Turkish-Cypriots. It also coincides with a debate within Turkey's awkward three-way coalition, ranging from ultra-nationalists to leftists, over scrapping the death penalty and granting the country's Kurds broader cultural rights—changes which the EU says Turkey must make if it is to ever join the club.

Mesut Yilmaz, the deputy prime minister, who belongs to the coalition's conservative Motherland wing and is in charge of relations with the EU, declared that the hackers were “anti-EU elements” and, if the state was involved in any way, it had committed “a grave crime”. *Aydinlik* claims that the e-mails prove beyond doubt that Mrs Fogg had organised “a secret network” whose “strategic goal” was to promote Kurdish separatism, unravel the secularism bequeathed by Kemal Ataturk and generally “destroy Turkey”.

Whatever her aims or deeds, the beleaguered ambassador's language has raised nationalist hackles across the political spectrum. Such idioms as “let sleeping dogs lie”, translated literally into Turkish, have provoked rage among many who, egged on by *Aydinlik*, believe she was comparing Turks to canines. Women's groups, bar associations and other civic groups have filed complaints with prosecutors across Turkey seeking Mrs Fogg's instant expulsion and an investigation into the activities of Ismail Cem, Turkey's foreign minister and a committed Europhile, for having “collaborated” with her, presumably in describing the mail burglary as “an ugly crime”. One ultra-nationalist columnist, describing Mrs Fogg as an “ugly old cat”, went as far as to suggest that her life was now at risk, and rightly so.

Whatever her aims or deeds, the beleaguered ambassador's language has raised nationalist hackles across the political spectrum

At that the EU growled, insisting that the Turkish authorities must protect its ambassador and her staff. If not, said Mr Prodi, the EU “reserves the right to take all measures deemed necessary for the security of the delegation staff, and its communications, for itself.” At last, a mission for the European rapid-reaction force?

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

Spain

A priest, gay, and not ashamed

Feb 21st 2002 | MADRID
From The Economist print edition

The church is worried by a practising gay priest. His parishioners are not

JOSE MANTERO is a parish priest in a southern Spanish town, Valverde del Camino, well liked by his flock and on good terms with his bishop—until he told a magazine interviewer not just that he was homosexual but that he was not celibate. Now he is a hero among gays and trouble for the hierarchy.

Father Mantero was talking to *Zero*, an up-market magazine aimed at gays—Spain's first. He saw no conflict between his faith and being a practising gay, he told it, challenging church doctrine twice over, on homosexuality and priestly celibacy alike. The local bishop, emphasising his good relations with the errant priest, imposed the most lenient penalty possible, banning him from hearing confession, but still letting him say mass and administer other sacraments. In contrast, a bishop from Galicia, in north-west Spain, called him “a sick man” and questioned his right to remain a priest.

It is the second time *Zero* has thrown down the gauntlet to an institution that has particular difficulty with gays. In late 2000, it carried an interview with a homosexual lieutenant-colonel in the army judicial corps about the problems faced by gays in the armed forces. Neither priest nor army officer can accept the way gays are tolerated, but only as long as they are not seen to be sexually active.

Yet, given Spain's past, the degree of tolerance is remarkable. During Francisco Franco's 40-year regime, homosexuals could be arrested as “a danger to society”. Today they walk round arm-in-arm and barely get a glance. There is a debate over gay marriages, allowed in some towns but not recognised by the state, and over adoption by gays (possible but difficult). The arts world readily accepts gays. Politicians are warier. The governing centre-right People's Party is less tolerant than the Socialists. Even one former Socialist minister, praised for “coming out”, did so only after his party had left office. Yet most of Father Mantero's parishioners are on his side.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Economist.com WORLD EUROPE
PRINTABLE PAGE VIEW SPONSORED BY
About sponsorship

Charlemagne

Jean-Claude Trichet, waiting

Feb 21st 2002
From The Economist print edition

He heads France's central bank. Can he win the same role at that of the euro-zone?

Get article background

EVERYONE, it seems, agrees: Jean-Claude Trichet is more than a politically convenient choice to take over from Wim Duisenberg in mid-2003 as head of the European Central Bank (ECB). Mr Trichet, consensus has it, is quite the best candidate for the job, a seasoned central banker with a fine history of domestic and international experience and impeccable pro-European credentials. During the 1990s he oversaw France's controversial *franc fort* (strong franc) monetary policy, a role that must have prepared him well to become the guardian of the euro-zone's equally controversial "stability and growth" pact. He also has the credibility and, yes, the communications skills—not Mr Duisenberg's strong point—that will be needed to nurture the euro towards maturity and ultimately strength.

What a pity then, that a small judicial matter at home is hindering the dapper Mr Trichet's accession to his rightful place among Europe's grandest policymakers. In the next few weeks, a Paris judge will receive a dossier reporting on his role in one of the murkiest episodes in French banking history. If, having reviewed it, the judge rules there are no grounds for prosecution, then Mr Trichet's name will be clear and his candidacy for the ECB job assured. A prosecution, however, would be bad news. It might just be possible to hold a trial this year or early next, but the chances of Mr Trichet clearing his name in time—even if that were the outcome—would be slim.

The scandal that has snared Mr Trichet concerns the pillaging of state funds by Crédit Lyonnais, one of France's biggest banks, in the late 1980s and early 1990s. More than $20 billion flowed out in bad loans and dodgy deals. Dozens of bankers and their clients were involved. Dozens of state officials in the finance ministry, banking and audit commissions, and sundry other public bodies either knew or should have known that things were amiss. Yet so far, years later, there has been almost no legal follow-up. A couple of minor figures have been prosecuted, but the main cast of characters has carried on as if nothing had ever happened. A few big names, including Mr Trichet, are under investigation, it is true, but the inquiries can politely be described as having utterly lacked urgency. In effect, a profound silence has emanated from the French establishment.

Mr Trichet is not suspected of stealing or misdirecting one centime of public money. But as head of the Treasury from 1987 to 1993, he was responsible for signing off state-owned Crédit Lyonnais's annual accounts. In 1992 and the first half of 1993, the bank's true losses were so much worse than the headline numbers that its very solvency was at stake. You would not have known that from its accounts. So was Mr Trichet guilty of conspiring to publish false accounts? On that legal nicety he might yet become the only senior figure in France to suffer meaningful punishment for a scandal, in which, at worst, from all that is yet known, he played no more than a walk-on role.

That explains why Mr Trichet's legal dilemma is so painful, not just for him personally, but for the establishment that wants to see him elevated. He is an archetypal member of that establishment. President Jacques Chirac, who at first found him irritating, now keenly campaigns for him. At the Treasury, which he ran before taking over at the Bank of France, staff still refer wistfully to the period of "J-C". Mr Trichet perfected a characteristically French system of leadership in which, with scrupulous attention to detail, minions were alternately coaxed and pushed into doing what he wanted.

He came late to central banking. He might have become a poet, but trained as an engineer before graduating fifth in the 1971 class at the Ecole Nationale d'Administration, France's top academy for public servants. That brought him to a post in the elite Inspection Générale des Finances, a department that audits public institutions. Having learned how badly big state companies were run in the early 1970s, he spent the latter half of that decade overseeing a government-led restructuring of French industry. He was

a rising star, and a trusted adviser on energy and economic matters to President Valéry Giscard d'Estaing.

He was also lucky. In 1981 François Mitterrand began his presidency by purging supporters of the Giscard regime. Aged 38, Mr Trichet wound up in the Treasury and became head of its international-affairs division in the mid-1980s, just as the third-world debt crisis was breaking. He served as chief of staff to Edouard Balladur, finance minister in a conservative government formed by Mr Chirac, under the Socialist president, in 1986. His reward the next year was to be made head of the Treasury, a job he kept until he became head of France's central bank in 1993.

A bankers' central banker

Mr Trichet is rightly proud of his record in working with politicians of different political hue. He deserves respect for his courage in maintaining the central bank's independence, acquired in 1994, despite occasionally blistering attacks from ministers. He received a sharp slap from Mr Chirac during the 1995 election campaign, when the would-be president scored cheap points by betraying a letter that Mr Trichet had written to him. Critics questioned Mr Trichet's judgment, but at worst he seems to have been naive. Friends say he has had to practise putting on the veneer of gravitas and self-certainty required by central bankers. Less kindly observers say that over time he has clearly become comfortable with his role.

Admired in the United States, Mr Trichet has been talked of as a possible head of the IMF. But the ECB is his ambition. Having overseen France's progression towards the euro, he has a firm grasp of the difficulties facing the European economy. Who better, indeed, to head the ECB? How ironic for France it would be if he were tripped up by a technical glitch from years ago, while others truly involved in the Crédit Lyonnais shenanigans remained unpunished. And, for the euro-zone, what a pity.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

Political donations

The Mittal way

Feb 21st 2002
From The Economist print edition

Charges of influence-peddling haunt Mr Blair's government

Get article background

THE suspicion that political decisions were influenced by private money was one factor that persuaded voters to throw the Conservatives out of government five years ago. Now Tony Blair finds himself embroiled in similar controversy. And, like the Tories, he is discovering that once thrown, mud is hard to wash off.

The facts of this row are simple enough. Last year, the LNM Group, a London-based holding company, offered to buy Sidex, a Romanian state-owned steel-maker. Usinor, a French steel firm, was also interested. On July 23rd, Mr Blair sent a letter to Adrian Nastase, the Romanian prime minister, commending the deal. Two days later, LNM was declared the winner.

All this would hardly be unusual were it not for the fact that in June 2001, Lakshmi Mittal donated £125,000 ($180,000) to the Labour Party. Mr Mittal, a billionaire, owns the LNM Group and its operating subsidiary, Ispat International NV. The amount made him one of the party's biggest donors that year (see chart). So the suspicion is that Mr Blair signed the letter because of this, not because the deal was in Britain's interests.

Money for nothing?
Top Labour Party donors, 2001

	Amount £'000	Position (Field)
Sir Alan Sugar	200.0	Chairman of Amstrad (Electronics)
Lakshmi Mittal	125.0	Chairman of Ispat (Steel)
Christopher Ondaatje	102.5	Author and financier (Publishing)
Gulan Noon	100.0	Founder of Noon Products (Foods)
Sir Ronald Cohen	100.0	Chairman of Apax (Venture capital)
Sir Sigmund Steinberg	100.0	Chairman of Isys (Software)
Tom Hunter	100.0	Chairman of Blane Leisure (Retailing)
Paul Drayson	50.0	CEO of Powderject (Pharmaceuticals)
Charles Peel	50.0	Chairman of Peel Hunt (Stockbroking)

Sources: Electoral Commission; *The Economist*

Mr Mittal has declined to be formally interviewed, but authoritative sources say he is outraged by the smears that have surrounded the deal. “I have absolutely nothing to hide,” he says. “I have a very strong British identity. I have British companies with a turnover of nearly £40m a year. What is more, I have settled here and raised my family here. I pay tax here. It's true I run a multinational group but I have no business interests in India. So please tell me, what should my identity be?”

Certainly the hoo-hah this deal has created in Britain would be astonishing to Americans, used to American companies making big political donations in return for helpful treatment from politicians. It would be no less surprising to the French, whose politicians routinely help French firms in foreign markets.

Nonetheless, over the past two weeks, Mr Blair's official spokesman has undergone hours of grilling by reporters. Mr Blair's problem is that he came to office having contrasted Labour integrity with Tory sleaze. In government, Labour made it compulsory for all political parties to disclose the identities of all donors of more than £5,000, and the amounts given. It is this openness which has now come back to haunt the government.

The government says that it can barely comprehend what all the fuss is about. Look, it says, the whole saga was kicked off by Richard Ralph, the British ambassador to Romania. He had five meetings with Mr Mittal's companies and suggested to his bosses at the Foreign Office that Mr Blair should support this

British bid.

Foreign Office and British Trade International officials say they checked the matter and drafted a letter for Mr Blair to sign. After a Downing Street official deleted the word “friend” (correctly; Mr Mittal is not a friend of the prime minister), Mr Blair spent “all of 30 seconds” reading and signing the letter which simply referred to the company, not to Mr Mittal. Its purpose, they say, was diplomatic: to encourage further Romanian privatisation and to signal to British firms that they should do more business in Romania. Mr Mittal's associates confirm this version of events and insist that he did not solicit the letter from either the Foreign Office or No 10 Downing Street.

The government points out for its part that such letters are not unusual; the Foreign Office claims that Mr Blair must sign about 50 similar letters every year. What's more, it repeats, this letter arrived after the deal was done. The Romanian government confirms that the deal was agreed by its privatisation committee on July 19th, four days before the arrival of the Blair letter. And finally, both the ambassador and Mr Blair say they were not aware that Mr Mittal was a party donor.

Against that account, Mr Blair in fact met Mr Mittal at a reception for high value party donors, and so can hardly have been unaware of the financial link. Nor will his chief of staff, Jonathan Powell, have been unaware. Still, there are a lot of firms on whose behalf he might thus send letters, including BAe Systems, BSkyB, and National Power, who all gave more than £5,000 in 2000.

Indeed, it seems that Mr Blair's letter had little influence on the privatisation outcome. According to Ovidiu Mesetescu, the Romanian privatisation minister, Usinor was never a serious rival. It did not pay to enter the tender process but instead sent letters offering to manage Sidex for a few years and then help to privatise it. This did not suit Mr Nastase, who wanted to be rid of a company costing the country about $300m a year.

Mr Blair is, however, open to criticism in describing the LNM Group as British. In fact, it is a multinational firm registered for tax purposes in the Netherlands Antilles. Its headquarters are in London where about 50 of more than 100,000 employees work. In 2000, LNM Group companies in Britain turned over £40m making a net profit of £2.3m. That compares with the $5 billion turnover and $99m profit of Ispat International, the main operating arm.

Government officials will not say what criteria they used to define Mr Mittal's firm as British. Critics point out that they have yet to discern what benefit Britain's economy will gain from the Romanian deal. British steel workers, not surprisingly, feel aggrieved that Mr Mittal's American subsidiary wants the American government to impose steel import tariffs which would deal a blow to British exports. Mr Mittal denies that the deal is against Britain's interests. “What has not come out in all this,” he says, “is that this deal is very much in keeping with the British government's foreign and economic policy of encouraging privatisation and market reforms, especially in European Union accession countries.” He also points out that any British steel company would much prefer to compete against a privatised industry than a state-run enterprise.

Mr Mittal's London offices, set high above posh Berkeley Square, are next to the sari-clad hostesses of the Air India office on one side and the English toffs and tarts that frequent Annabel's nightclub on the other. That juxtaposition captures Mr Mittal's plight. He is right to feel that much of the coverage of his deal has been tinged with racism.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Economist.com WORLD BRITAIN
PRINTABLE PAGE VIEW SPONSORED BY
About sponsorship

Banking

Love me

Feb 21st 2002
From The Economist print edition

Banks try out a new strategy: being nice to their customers

STRAYING into the red at his bank, wrote Robert Morley, an actor born in 1908, usually led to being "admonished in the tone of voice usually used to those whose flies are undone". Relations between banks and their customers in Britain have become more cordial since then, but not much. Most people dislike banks, because of what they perceive to be arrogance, unfair charges, errors and poor service.

But perhaps things are changing. Bowing to pressure from irate customers at NatWest, its parent, Royal Bank of Scotland, is hiring 6,000 more staff so that people will no longer have to deal with an answering machine. HBOS, the result of a merger between Halifax and Bank of Scotland, won 350,000 new customers last year by offering an interest rate of up to 4% on current accounts, significantly more than its larger rivals, who pay roughly 0.1%.

British banks have no option these days but to woo their customers. For years, they made handsome profits by buying each other and ruthlessly cutting costs. But when the Department of Trade and Industry ruled against the proposed takeover of Abbey National by Lloyds TSB last year, it signalled an end to large-scale consolidation. Organic growth, rather than cost-cutting, is the banks' new mantra. They hope to achieve it by selling more products to their existing customers.

But cross-selling, as it is known in bankers' jargon, is an elusive beast. A small handful of banks around the world has achieved significantly higher cross-sell rates than its competitors. But most manage to sell, on average, less than two products to each client.

For a while, bank chief executives hoped that the answer was "Customer Relationship Management" (CRM). Banks have devoted much time to this.If the bank notices a mortgage payment going through a current account for the first time, for instance, it might try to promote some home-contents insurance. But in many cases CRM has turned out to be the opposite of what its name suggests. According to Gartner Group, over three-fifths of such projects have failed to meet expectations. The reason is that CRM is being used to sell products rather than to improve service. It is controlled from banks' head offices, not from branches, and this often gives an inconsistent impression. "You might get a gushing letter trying to sell a personal loan but then a cold reception in the branch," says Andrew Pople, head of retail banking at Abbey National.

It is that frosty treatment which puts people off banks. In the last ten years or so, banks' senior managers have taken operations out of branches in order to reduce the cost of their networks. The people who deal with customers are left with little power to do anything, and many enquiries are passed straight to head office. Customers who try to telephone someone in their local bank branch are told to ring a call centre instead. Morale among branch staff, after years of watching colleagues being made redundant, is low. Unsurprisingly, these people are not proving to be whizzes at cross-selling financial products.

Mark Weil, a consultant at Oliver, Wyman & Company, thinks that banks need to restore a sense of entrepreneurship to the people who run their branches. Abbey National is trying to do this by franchising its branches. It has spun some off into subsidiaries, part owned by branch managers. Many more have been "internally franchised", meaning that managers' pay depends on the profit performance of their branch, rather than on centrally decreed sales targets. The bigger high street banks are watching the experiment sceptically. One of their fears is that customer service could suffer in the hands of local branch chiefs bent solely on short-term profits. This is just what many people feel already about British banks.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

Student finance

Should try harder

Feb 21st 2002
From The Economist print edition

The government is in a mess over student funding. It needs some new ideas, fast

SELDOM do the arriviste assemblies in Edinburgh and Cardiff set the pace for the mother of parliaments in Westminster. But on the vexed subject of student finance, that is exactly what the Scots and the Welsh are doing.

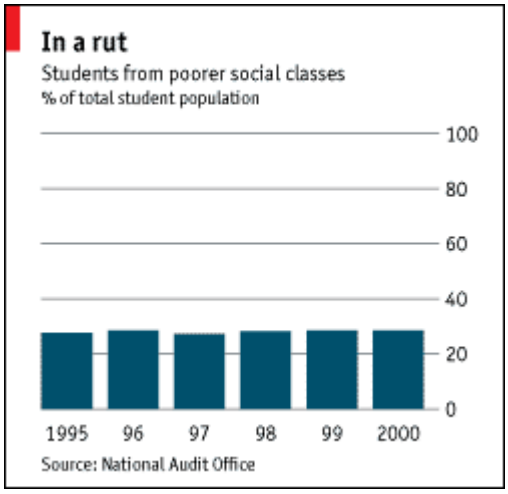
One of the first things that the Labour government did after it came to power in 1997 was to change the way in which students are supported. Out went the universal, state-financed higher education that had existed since the 1960s. Maintenance grants (for living expenses and rent) were abolished, and, in 1998, tuition fees (paid to the university) came in. Today students have to pay their own way through university, relying mostly on a system of low-interest loans. This sent out a clear New Labour message: that a university education was no longer a universal right, but was something that equipped the graduate with a strong advantage in the jobs market, and therefore had to be paid for. And, like many of the clearest new Labour messages, it was lifted without acknowledgment almost wholesale from the preceding Conservative government.

The new policy went down particularly badly in Scotland and Wales. First the Scottish Parliament decided to abolish tuition fees, and then, earlier this month, the Welsh Assembly voted to re-introduce modest means-tested student grants. Now all eyes are on Westminster. The government announced last October that it was starting a review of student finance, thus preparing the ground for a discreet U-turn. But the fact that this "review" is taking so long is an indication of the difficulties that this area of public policy throws up.

The principal argument against introducing tuition fees and scrapping maintenance grants is that it has deterred those young people from poorer backgrounds from applying to university for fear of going heavily into debt. One of the mantras of New Labour is "social inclusion", but the latest figures show that the university intake is not becoming any more inclusive. It may even become less so.

Although a record number of people are now going into higher education (453,833 in 2001), according to a report published in January by the National Audit Office (NAO), the proportion from poorer homes has hardly changed at all in recent years (see chart). The NAO study also shows that students from poorer homes are more likely to drop out because of financial difficulties.

Whereas about 70% of middle-class children now go to university, white working-class boys are still the most under-represented group. Only 13% go to university, less than half their representation in the population. Ministers used to be in denial on this subject, routinely admonishing those who dared to suggest that there was any link between the change in the structure of student finance and the class profile of the university intake. But the evidence is now too strong to ignore, and the Labour-dominated assemblies in Wales and Scotland have acted.



What will Tony Blair do? Several options are being mulled over in Whitehall. The government will not retreat from the basic principle that a student should make some contribution towards the cost of his education. After all, a degree confers a huge private benefit on the graduate, enabling him or her to earn up to £400,000 more over a lifetime than a person with two A-levels. So tuition fees will probably stay, particularly as 50% of students (from poorer

families) are already exempted from paying the £1,050 a year.

Instead, attention has shifted to maintenance payments. The government will probably introduce means-tested grants, dressed up as “Opportunity Bursaries” to save some face.

The other issue is whether to introduce a graduate tax. Under this system, the Treasury would pay a lump sum up front for the student, to be paid back via a separate tax on top of income tax when the graduate's income passes a certain threshold. This would probably encourage more working-class students to come forward, as it would relieve them of the prospect of debt (which can now be up to £20,000) on graduating. Another option is to extend the present loan system, which, as the NAO report shows, is not enough to cover student expenditure. Whereas the median student spends £5,464 a year, the maximum loan outside London is £3,619.

Either way, the government will have to come up with something that solves the problem of access, and also ensures that universities continue to get sufficient income from their students. Universities in Britain are currently under-funded by about £900m a year, and student finance cannot be separated from university funding as a whole. Which is why, in terms of education policy, this review has turned into the Blair government's longest and most painful essay crisis.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

Broadband

Lift off, at last?

Feb 21st 2002
From The Economist print edition

The prospects for high-speed Internet connections are looking up

Get article background

DESPITE the government's stated aim of having “the most extensive and competitive broadband market” in the developed world by 2005, Britain has fewer high-speed Internet connections per head than rival countries. But there are signs that things are finally about to pick up. Why has it taken so long? Britain's slow start owes much to the government's desire for the broadband market to be both extensive and competitive. It is difficult to achieve both of these aims at once.

The contrast with Germany is particularly instructive. There, the incumbent telecoms firm, Deutsche Telekom, made a strong effort to promote digital-subscriber line (DSL) connections, which supercharge existing phone lines to turn them into high-speed broadband links. As a result, at the end of last year, there were around 2m DSL connections in Germany, or 2.5 connections per 100 people. But over 95% of these lines are operated by Deutsche Telekom.The market is extensive, but it can hardly be described as competitive.

Things unfolded differently in Britain. British Telecom chose not to push DSL, and kept prices high. At the end of last year, there were 136,000 DSL connections, or 0.2 connections per 100 people. BT claimed that it could not cut DSL prices because Oftel, the telecoms regulator, would not allow this. The firm is supposed to permit competing firms to offer DSL services over its wires, in a process called “local loop unbundling” (LLU). This has been a flop, mainly because BT has made life difficult for its would-be rivals, most of whom have given up. Oftel's concern was that if BT cut its DSL prices to boost demand, it would make things even more difficult for such competitors. The result was a market that was competitive but could hardly be described as extensive.

But things are looking up, thanks to the convergence of two forces. The first is the growing popularity of broadband connections offered by Britain's two cable operators, NTL and Telewest. Last summer, the number of cable broadband connections overtook the number of DSL connections for the first time. It reached 200,000 by the end of last year. This is due in no small part to the fact that a cable broadband connection, at £25 per month, costs less than a DSL connection, which costs £40 per month. This suggests that if BT were to cut its prices, it would indeed stimulate demand for DSL. It also signals a way out of the current impasse. For while LLU has flopped, BT is now facing competition from cable operators. So Oftel may now be more inclined to allow it to cut its prices, provided it does not cut them below cost.

And that, it seems, is what BT is preparing to do. The full details will be announced next week, but the key is that BT has identified several cost-saving measures that will enable it to lower its DSL prices without offending Oftel. These are expected to include a greater emphasis on self-installation, which involves customers plugging in DSL equipment themselves rather than relying on a technician.

BT's announcement of its planned price cut, and the implication that it has Oftel's approval, has prompted howls of outrage from the handful of firms still pursuing LLU. It is certainly curious that BT has found ways to cut DSL prices only now that almost all of its would-be competitors have disappeared. But the result will almost certainly be a more extensive, if less competitive, broadband market. Alas, it appears difficult to have both.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Football

People's Republic of Dundee

Feb 21st 2002 | DUNDEE
From The Economist print edition

The many fans of Fan, the footballer

UNTIL recently, the dour Scottish city of Dundee, best known for its marmalade, was hardly a household name in China. But suddenly Dundee has become very important indeed to a fifth of the world's population.

The sudden fame is due to one man—Zhiyi Fan, a footballer. Never heard of him? Well, he captained the Chinese team that shot to stardom in Asia after qualifying, for the first time, for this summer's World Cup finals. He also happens to play for Dundee, a Scottish Premier League team.

Last October, Dundee bought him for £350,000 from Crystal Palace, an English Club side, which grew tired of his trips home to play for China. Although the club has to fork out about another £500,000 a year in pay, this might turn out to be a bargain.

Televised English football is watched by about 400m Chinese who are now also avidly following Mr Fan's Scottish exploits. The club is desperately trying to fix a deal to open a shop in Shanghai, Mr Fan's home city. They hope to sell an awful lot of replica shirts; returning Dundonians report that his star status in China is as high as that in England of David Beckham, the Manchester United prodigy.

This may have a big spin-off. “The appetite in China for all things Scottish is there,” says Peter Marr, the club's chairman. Among those benefiting are the city's two universities, which have had a sudden upsurge in applications from Chinese students. Abertay University hopes to carve out a niche in teaching courses on how to do business in China.

The only problem, it seems, is that Mr Fan has yet to improve Dundee's lowly status (ninth) in the Scottish Premier League. But at least Dundonians, after Scotland failed to make it to the World Cup, have someone else to cheer.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

London's mayor

A shoo-in

Feb 21st 2002
From The Economist print edition

London's mayor is facing increasing flak but his popularity is undented

THE critics have begun to snipe at London's first mayor and he doesn't much like it. Ken Livingstone sounds a touch irritated when asked what, if anything, he has achieved in his first 18 months of office. But the only failure he concedes is his battle against the Trafalgar Square pigeons.

Mr Livingstone will formally announce next week whether he is going to proceed with his controversial plan to charge motorists entering Central London £5 a day. But he has clearly already made up his mind. “It would be an act of political cowardice to delay,” he says. “People elected me to sort out the transport mess and that's what I am going to do.”

Statements such as this are unlikely to appease his opponents. Criticisms of congestion charging have begun to be voiced by a number of organisations. The Confederation of British Industry says that charging will add to the cost of doing business, and that before it is introduced “measurable progress” must be made in improving public transport. Several London boroughs, such as Westminster, and Kensington and Chelsea, are threatening to seek a judicial review. The deputy leader of Westminster council, Kit Malthouse, claims that the mayor has ignored the fact that London is already one of the most expensive places in the world to live in.

Under pressure, Mr Livingstone has been forced to exempt a number of organisations and individuals from the charge, including firemen and NHS staff on duty. The charging hours have also been reduced from 7am to 6.30pm. Stephen Norris, the defeated Conservative mayoral candidate, says that congestion charging is now “deeply flawed”.

Even London First, representing business interests, which in the past has been supportive, recently called on the mayor to provide better leadership. The *Evening Standard* has taken to complaining that the mayor has been invisible. One of its columnists, Simon Jenkins, who is opposed to the mayor's enthusiastic endorsement of skyscrapers, wrote: “Where is London's Rudy Giuliani? Skulking? Or holed up with property developers?”

None of this appears to be denting the mayor's popularity. The latest MORI opinion poll gives him a satisfaction rating of 21%. That may not sound high, but Bob Worcester, the veteran chairman of MORI, says that he is “odds-on” favourite to win re-election in two years' time. Mr Livingstone, who stood and won as an independent, says he will do so again if he is not selected as the Labour candidate.

Front runners can stumble, but the mayor exudes confidence. In the middle of a formal Transport for London Board meeting, a white-haired woman got up to denounce him. Instead of having her ejected, Mr Livingstone engaged in a lively debate, calling her “darling”. After five minutes of badinage, the woman sat down, apparently content. Few ministers could have handled her so deftly. Ken has lost none of his populist touch.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

Child poverty

A demanding target

Feb 21st 2002
From The Economist print edition

Cutting child poverty will be expensive

IF GORDON BROWN raises taxes in the next budget, it will not simply be to finance the National Health Service. It will also be to meet Labour's commitment to lower child poverty. The pledge is clear: to cut child poverty by at least a quarter by 2004 and by a half by 2010. The chosen means is also clear: a new form of child support which starts in 2003. But it will be costly, as the budget will reveal for the first time.

The immediate objective to reduce child poverty by a quarter is spelt out in one of the government's many targets. Poor children are defined as those living in households whose income, after housing costs, is below 60% of the median—the income in the exact middle of the income distribution. In 1998-99, there were 4.2m children—a third of all children—living in such households. So to meet its target, the government will need to bring this figure down to at least 3.15m, about a quarter of all children, by 2004.

Progress so far has been slow. In 1996-97, the year before Labour took office, the number of children living in poverty was 4.4m. By 1999-2000, this had declined only to 4.1m. A more substantial decline to 3.5m is expected for 2001-02 as reforms such as the working families' tax credit (WFTC), introduced in October 1999, take full effect. But this will still mean that the government has failed to meet its earlier pledge to remove more than a million children out of poverty in Labour's first term. To reach the target for 2004, more money will be essential.

The government's chosen method is the child tax credit, a new form of financial support targeted especially towards low-income families. Child support, which is at present directed to poor non-working parents through income support, to poor working parents through the WFTC, and to most families through the children's tax credit, will be merged into one credit.

But integrating these three elements will itself cost money, if the Treasury is to avoid losers. At present, the universal child benefit costs £9 billion a year, and the three other targeted forms of child support together cost as much again. The Institute for Fiscal Studies (IFS) calculates that introducing the new tax credit without creating losers will cost an additional £2.7 billion, equivalent to a penny on the basic rate of income tax.

The extra cost arises for several reasons. The new credit will raise child support for non-working parents to the higher levels paid to working parents. The decision to assess the child tax credit on the basis of gross rather than post-tax income pushes up the cost by reducing the rates at which the WFTC is currently withdrawn. And the application of joint assessment to the credit will disadvantage nearly a million dual-earner families, who now receive the children's tax credit, unless the replacement credit is generous.

A child tax credit costing £2.7 billion may be just enough to allow the government to reach its target in 2004. The IFS estimates that it would cut child poverty by around 400,000 (see table). That would bring the number of poor children down to 3.1m by 2004—assuming that the government is correct in expecting a fall to 3.5m by 2001-02. But it will be a close-run thing. To cut the number of poor children by around a million would cost as much as £6.1 billion.

A costly pledge
Child tax credit options

Reduction in child poverty, '000 children	Annual cost, £bn
400	2.7
800	4.1
1,100	6.1

Source: IFS

The problem, explains Mike Brewer of the IFS, is that the government is chasing a moving target. As employment and

earnings grow, those on low incomes who rely heavily on benefits tend to get left behind. The pledge to reduce child poverty is proving to be an expensive one.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

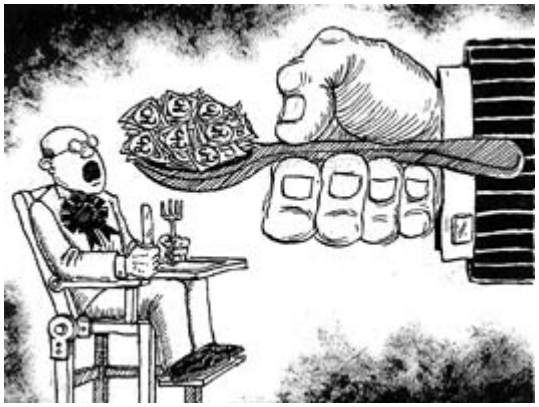
About sponsorship

Bagehot

Seven neglected principles

Feb 21st 2002
From The Economist print edition

Against state funding for political parties



WHEN it was in opposition, Tony Blair's Labour Party flayed John Major's Tories for their alleged sleaze. In order to be seen to care about this, Mr Major created a committee of the great and good, initially under Lord Nolan, a lawyer, to oversee standards in public life. One thing this committee did was to draw up "seven principles of public life". In light of recent events, they make an amusing read. The principles were: selflessness (holders of public office should serve the public interest, not seek gains for their friends); integrity (they should not place themselves under financial obligation to outsiders who might influence their duties); objectivity (they should award public appointments and contracts on merit); accountability (they should submit themselves to the appropriate scrutiny); openness (they should give reasons for their decisions); honesty (they should declare conflicts of interest); and leadership (they should support these principles by personal example).

More honoured in the breach

Not even the most credulous observer can revisit these principles four years into Blairism without feeling a tad cynical. Consider principle one. Was Lakshmi Mittal Mr Blair's "friend" (as an early draft of the prime minister's now infamous letter to the Romanian government called him) or just a businessman to whom the Labour Party felt an obligation after he gave it money? If neither, it is hard to see what British interest Mr Blair was serving by promoting the attempts of this international company to buy a steel firm in Romania. As for integrity, objectivity, accountability, openness, honesty and leadership, each of these has now been given its depressing Labour counterpoint. Keith Vaz, a former minister, has been suspended from Parliament for failing to submit to the appropriate scrutiny. The government stands accused of awarding contracts to an accounting firm that gave special help to Labour in opposition. Peter Mandelson has quit the cabinet twice—first for concealing a personal loan and then for a lack of openness. Not all of the allegations laid against the government have been proved, but nor—despite the show of wounded innocence from Mr Blair and his spokesmen—have they been disproved. The prime minister who promised to be purer than pure knows that in voters' eyes his government is now considered as sleazy as the last lot. How wonderful it would be if this were to provoke him into remedial action. Unless, that is, he is tempted by the wrong remedy.

This, alas, is becoming increasingly possible. For the temptation now before Mr Blair is to slice through all of his party's vexing entanglements with its donors by turning the business of financing political parties over to the state, and so shifting the cost to taxpayers. This has a special appeal to a party such as Labour, whose leadership has fallen out of love with its union paymasters but whose members are still repelled by the new ties the leadership has forged with business. In 1997, the party entered office with a fairly open mind on this. Its manifesto promised to make parties declare the source of all donations above a minimum figure, and to ban foreign funding. To its credit, the government then made good on these promises. It also asked the committee on public standards, which by then was being chaired by another eminent lawyer, Lord Neill, to consider how the financing of political parties might be more widely reformed. Unlike the Tories, Labour told the committee that it did not oppose state funding on principle but because, at a time of fiscal prudence, the needs of the political parties were not a pressing public-spending priority.

That, however, was then. Mr Blair would not be human if after four years of buffeting over corporate donations he was not beginning to think again about these priorities. In pressing for a change, he could justly argue that it is commonplace in many democracies for parties to receive all or most of their money from the state. In theory, moving to such a system could at a stroke end the quarrels that have plagued both main parties in Britain. The Liberal Democrats and other small parties, together with many academics and think-tanks, support the idea. Money from taxpayers would help to fill the subscription gap caused by the declining membership of the big parties: since 1997, Labour's membership has fallen 10%, to a mere 280,000. In a small way, the principle of state funding has already been conceded: the Conservatives already receive some public funds, known as “Short money”, to help organise their opposition in Parliament. And there exists any number of ingenious formulae—some tied to electoral performance, some to party membership—that could be designed to ensure that sums doled out by the state to the respective parties are “fair”.

All the same, it is a bad idea, and one that Lord Neill's committee, though considering the arguments finely balanced, decided in the end not to endorse. Why should taxpayers be compelled to pay for the support of political parties with whose outlook and policies they strongly disagree? Beyond this, there is the danger that parties funded through taxation will become, or will be seen to become, an entrenched part of the state itself. That would be a perverse development at a time when fewer Britons than ever are willing to join or even to identify strongly with a political party. And besides, many of the countries in which state funding is the norm have problems of political corruption that go far deeper than Britain's. In French, German or American eyes, the British fuss over Mr Mittal's paltry donation to Labour must resemble a tempest in a teapot.

On coming to power, Labour introduced some needed transparency into political donations. Its current difficulties are a sign that the transparency is doing its job. What is called for now is not another change in the system but a higher standard of behaviour by those who work with it. Mr Blair should start by reminding himself of those seven neglected principles.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

Internet firms

Party like it's 1999?

Feb 21st 2002 | SAN FRANCISCO
From The Economist print edition

A successful share offering by PayPal, an Internet firm, does not signal a new dotcom boom. But it does show that investors can now tell good dotcoms from bad

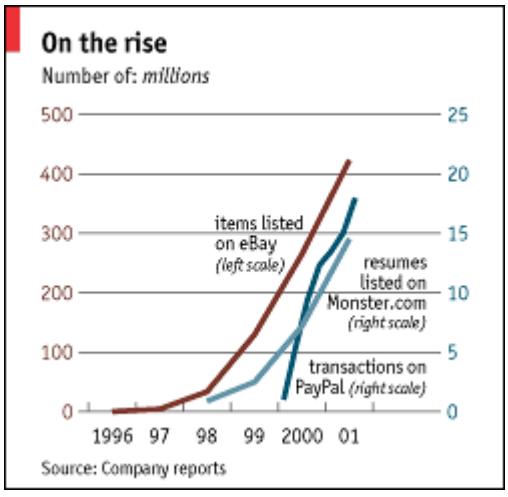
Get article background

FOR a moment, it felt like the good old days of the new economy. When PayPal, an online payment start-up based in Silicon Valley, went public on February 15th, its shares surged by as much as 54%—even though the firm had lost $18.5m on sales of $40.4m in the quarter ending in December. PayPal had postponed its initial public offering (IPO) earlier this month after a company called CertCo filed a lawsuit accusing it of patent infringement. Surging share prices, non-existent profits and legal wrangles—it was as if the dotcom crash had never happened.

Yet anyone now hoping for a revival of the dotcom boom is in for a disappointment. PayPal's successful IPO is, instead, a sign that investors have finally figured out the ingredients of a winning dotcom, having first bet uncritically on anything even remotely Internet-related, and then having equally indiscriminately dumped the shares of all Internet firms. Winning dotcoms appear to have three characteristics.

First, they exploit the Internet's ability to exchange information at very low cost in order to offer valuable services that would be prohibitively expensive offline. Prime examples are eBay and Monster.com, leaders in online auctions and job markets respectively. Travel sites such as Priceline and Expedia also fit this bill.

In comparison, e-tailers are much less virtual. With its huge distribution centres, Amazon.com is as much a logistics firm as a dotcom. That is not to say that e-tailers cannot be profitable—Amazon recently posted its first ever quarterly profit, of $5.1m—but it is hard, as the bankruptcies of eToys, Webvan and many others attest. Except for niche sites, online retailing seems to have more of a future as an additional sales channel for existing businesses. Some believe that even Amazon will one day be taken over by an offline retailer.



PayPal, for its part, is squarely in the camp of the pure bit-shovers. Its aim is to provide the online equivalent of cash, to allow web surfers to exchange payments easily. Users open a PayPal account linked to a credit card or a bank account. To send money, they simply type in an e-mail address and the amount. To collect the money, the recipient must also register.

That highlights the second ingredient for success, which is to take advantage of a property of communications networks: that their value increases with the number of users. Most start-ups tried to jump-start such “network effects” by being first to market and spending a lot of money on advertising to develop a brand—a strategy which proved a disaster in almost all cases.

In contrast, neither eBay nor PayPal ever spent much on marketing. But after eBay became the preferred

place on the web to trade collectibles in the late 1990s, largely through word of mouth, it quickly entered a virtuous circle in which more buyers attracted more sellers, who attracted yet more sellers, and so on. At the end of last year, eBay had 42.4m users worldwide. In the previous three months they listed 126.5m items and spent a total of $2.73 billion between them.

PayPal's business is similarly self-feeding—not least due to eBay. PayPal quickly became the payment scheme of choice on eBay, which generates about 65% of PayPal's revenues. To reach critical mass, the start-up paid users $10 to sign up their friends—an incentive it was soon able to drop. The firm now has around 14m users, and signs up over 24,000 more each day.

Online job listings are much less of a winner-takes-all (or almost all) market. Businesses like to post their openings in more than one publication, be it offline or online. That is why Monster has spent millions on advertising, in particular on horrendously expensive Superbowl commercials. But thanks to network effects and acquisitions, the company, which was founded in 1994 as a simple job board, can boast over 20m users and 14m listings.

Now that they have established themselves, PayPal, eBay and Monster have a third advantage: relatively high switching costs that enable them to retain customers and give them pricing power. On eBay, for example, buyers rate sellers, allowing the latter to build a reputation—which they would lose if they were to switch to another auction site. Such potential losses make it much easier to introduce or increase fees. Last month, eBay raised the amount it charges per auction (a percentage of the value of a sold item), in some cases doubling fees for sellers. Unsurprisingly, this caused much protest, but no mass exodus.

PayPal, eBay and Monster have a third advantage: relatively high switching costs that enable them to retain customers

PayPal and Monster have less pricing power, but they are able to milk at least part of their clientele. In both cases, individuals can use the service free of charge, for instance to post a resume or to send some money within America. Businesses, on the other hand, must pay. PayPal charges merchants, of which 2.6m have signed up, a commission of between 2.2% and 2.9% to receive money via e-mail. On Monster, employers pay $305 for a job listing which remains on the site for 60 days. Yahoo!, a web portal, in contrast, is having trouble encouraging its 219m users to pay for its services. Most of the information it offers is available elsewhere, and switching costs are low—a share price is a share price, wherever you read it.

To be sure, combining all these characteristics is no guarantee that a dotcom will succeed. Success attracts competition, for one thing. Following in PayPal's footsteps, Citigroup now offers a person-to-person payment system, called c2it, as does eBay itself, called BillPoint. And a consortium of major American newspapers operates an online recruitment site, CareerBuilder.

Then there are legal risks, as Napster, the online music-swapping service, demonstrates. It was shut down by the courts, though it recently came back as a paid subscription service. eBay, for its part, was accused of monopolistic behaviour when it moved, in early 2000, to keep other sites from accessing its auction database. Similarly, it will be interesting to see whether PayPal will ever allow its users to send money to c2it accounts. And some states may decide to regulate PayPal as a bank—which would prove costly for the firm.

In short, PayPal's success is by no means assured. Its ability to attract investors may prompt other firms to launch IPOs (see article). But such firms will, like PayPal, have to convince sceptical investors that they are not just clever business models hyped by venture-capital dollars.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Economist.com BUSINESS
PRINTABLE PAGE VIEW SPONSORED BY
About sponsorship

Soft drinks in China

Not so fizzy

Feb 21st 2002 | BEIJING
From The Economist print edition

China's own soft-drinks giant is no match for foreign competition

THE Jianlibao Group should have a lot going for it. Its soft drinks are among the best-known brands in China; its logo is ubiquitous at Chinese sporting events; and its fizzy fruit-juice and honey drinks are known as “magic water”. Yet in the face of foreign competition from the likes of Coca-Cola and PepsiCo, the once proud giant of China's soft-drinks industry is teetering on the brink of ruin. Its recent acquisition by an obscure state-owned investment company has done little to boost confidence in its prospects.

The story of Jianlibao offers a salutary lesson for state-owned companies worried about their survival as the country meets the market-opening commitments it made when it joined the World Trade Organisation (WTO) last December. As one of the less protected Chinese industries, the soft-drinks sector has had long experience of what life might be like under WTO rules. Jianlibao's misfortunes have shown the perils of trying to compete head on with multinational giants, not to mention the pitfalls of state control.

When it emerged in December that state-owned Jianlibao—burdened by debts estimated in some press reports at over $180m—was preparing to sell a controlling stake to a foreign company, there was an outcry. A Singaporean food and beverage maker, Tee Yih Jia Food Manufacturing, was reported to be the frontrunner.

But before Tee Yih Jia could settle the deal, it was suddenly announced in mid-January that a 75% stake in Jianlibao had been sold for $46m to a state-owned firm, the Zhejiang International Trust and Investment Corporation, which has no experience whatsoever in the soft-drinks business. A 28-year-old director, Zhang Hai, was made Jianlibao's new boss. Mr Zhang, who is said to have performed “extraordinary feats” with his numerous other business interests, vowed to turn the company into the “Coca-Cola of China”.

This is a tall order. Since its heyday in the early 1990s, Jianlibao's share of the carbonated-drinks market has slipped from around 15% to less than 5%. Coca-Cola and Pepsi now dominate the market. “People associate Jianlibao with the 80s, with an older era,” says an executive of a rival manufacturer. The purported fortifying properties of Jianlibao's products (the official drinks of China's national sports teams) do not help win over urbanites seduced by the American brands and their association with western affluence. The official *China Daily* newspaper blames Jianlibao's woes on “poor management, blind investment and fierce competition”—familiar problems among China's floundering state industries.

If Chinese-owned companies have a hope of doing well in soft drinks, it will probably not be in the foreign-dominated fizzy sector. Mark Rosenfeld, an analyst at Salomon Smith Barney in Hong Kong, says the Chinese market may end up like that of Taiwan, where tea-based soft drinks outsell carbonated ones. In the tea sector, at least, Chinese manufacturers “probably have more of a head start”, he says. They will need it.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Economist.com BUSINESS
PRINTABLE PAGE VIEW SPONSORED BY
About sponsorship

Internet firms

Waiting for Google

Feb 21st 2002 | SAN FRANCISCO
From The Economist print edition

Will PayPal's successful share offering encourage Google to follow?

Get article background

NOBODY could call Google a first mover. By the time the web-search service was launched in 1998, online searching was considered a commodity, and all-in-one web “portals”, offering a range of services, were all the rage. But Google now attracts more than 27m unique users a month, making it one of the most popular sites on the web. After PayPal's successful initial public offering, many in Silicon Valley are asking when Google will do the same. The firm is not saying. But it is regarded as a hot prospect, both because its technology works and because the company already claims to be making money.

Google's success stems from its use of the link structure of the web to determine what is important, and what is not. A link from one page to another, for instance, is interpreted as a “vote”. The more votes a page has, the higher up it appears on the list of search results. Google's founders, Sergey Brin and Larry Page, came up with this approach while students at Stanford University.

What is more, Google keeps adding new forms of searchable content. In addition to web pages and pictures, users can now also search Word documents, discussion-group archives and other sources. All this makes the service, which is powered by more than 10,000 server computers, frighteningly useful: put in a phone number and you can get a name, an address, a street map and sometimes even a photo of the person.

Commercially, Google is also moving against the mainstream. It eschews banner ads, instead offering advertisers the option of buying discrete text ads or “sponsored links” which are only shown (and are clearly labelled) when users search for certain words. They generate about two-thirds of Google's revenue; the rest comes from firms (such as Cisco and Yahoo!) that use its search technology on their own sites. Last week, Google started selling computers loaded with its software, to enable companies to operate their own internal Google-like search services.

So far the business model appears to work. Google says it has turned a net profit since the second quarter of last year, although it won't say how much. To shore up this success, the firm has hired Eric Schmidt, the former head of Novell, an embattled software maker, as chief executive. The main question is whether the company can succeed where so many other advertising-based online ventures have failed.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Economist.com BUSINESS
PRINTABLE PAGE VIEW SPONSORED BY
About sponsorship

AT&T

Size matters

Feb 21st 2002 | BASKING RIDGE, NEW JERSEY
From The Economist print edition

Is the giant dying, or just resting?

THE recent verdict of *Fortune* magazine was that AT&T is “dying”, and who could disagree? The telecoms giant's sales are falling, predators snap at its heels, and the ambitions of its boss, Michael Armstrong, lie in expensive rubble around him. Even Golden Boy, the statue that decorates the firm's New Jersey headquarters, is up for sale: the company is seeking more modest accommodation elsewhere. If it really is dying, however, nobody seems to have told AT&T. The company thinks itself in ruddy health.

When Mr Armstrong joined in 1997, AT&T's business, as a long-distance carrier open to growing competition, seemed stuck in long-term decline. Mr Armstrong's big idea was to grow by seizing control of the “last mile” of local lines that had been in the hands of the regional “Baby Bell” operating companies since AT&T's break-up in 1984. So he bought and built cable and wireless networks as an alternative to the Baby Bells' telephone lines.

Just three years later, however, Mr Armstrong abruptly reversed course, saying that AT&T would break itself up. By the end of this year, when the company plans to have finished the sale of its cable unit, it will look much as it did back in 1997: a long-distance operator with a long list of blue-chip customers. There is, however, one key difference. The company may be back where it started, but the market has changed, and mostly to AT&T's advantage.

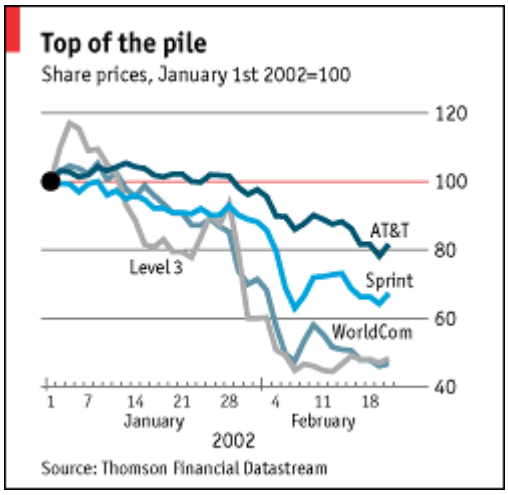
In recent years, the telecoms industry has feverishly invested in cables, switches and other high-tech kit. Overcapacity ensued, prices collapsed, and owning and operating the network itself suddenly looked less clever. Everyone soon realised that in this new world, money had to be squeezed not from the network, but from the services bundled with it. “Fibre-optic cable is like crude oil,” says Dave Dorman, AT&T's president and Mr Armstrong's probable successor when he steps down at the end of the year. “Customers don't buy crude oil. They buy finished products.”

In many ways, Mr Dorman's proposition is similar to that of IBM, a computer maker that reinvented itself around its services business. The field of communications, like that of computing, has evolved at such bewildering speed that most companies now have a hodge-podge of technologies to manage. At the same time, the rise of e-commerce means that the performance and reliability of the network itself has become vastly more important. AT&T thinks it can offer services to help manage these networks. The bigger the customer and the more complicated the network, the more lucrative the contract. In America alone, guesses AT&T, this market may be worth $60 billion. “We think there are good margins in this,” says Mr Dorman.

So, of course, does everybody else. But AT&T finds itself with a big advantage: its size. As open, Internet-based technology standards replace old proprietary networks, fiercer competition between telecoms carriers is making scale more important. Even after the sale of its cable business, AT&T will have twice the revenues of WorldCom, America's second long-distance carrier, and four times the sales of Sprint, the third. Baby Bells like SBC Communications have size, political protection and, of course, the famous last mile. But outside their regions, their brands are little known, especially among the big, deep-pocketed customers that AT&T cherishes.

WorldCom and Sprint, meanwhile (along with upstarts like Qwest and Level 3), are laden with debt. AT&T will jettison $25 billion of its borrowings with the sale of its cable unit, leaving it relatively unencumbered. And although it has just put an end to a costly and inept alliance with Britain's BT, AT&T still has a big global network with which to lure multinationals. “No one else comes close to them in the global business market,” says Mark Bruneau of Adventis, a consultancy.

Mr Dorman has rebuilt AT&T's sales team and repackaged its products. Awkwardly, however, much of his work has been obscured by the lingering presence of Mr Armstrong at the top. Investors understandably look at the chief executive's office and see a long list of failures. If they cannot quite yet bring themselves to believe in AT&T again, however, the company can take comfort from the sudden loss of confidence in its competitors. The market sell-off that has halved the share prices of its rivals has left AT&T relatively unaffected (see chart). If it is off to the boneyard, others may get there first.



Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Economist.com BUSINESS
PRINTABLE PAGE VIEW SPONSORED BY
About sponsorship

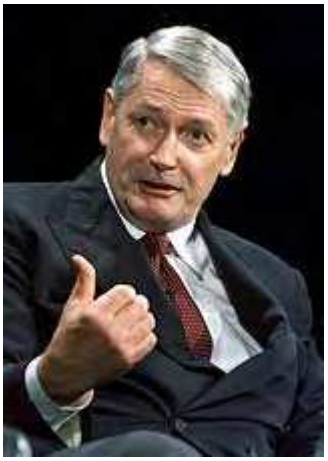
German media

Liberty rebuffed

Feb 21st 2002 | FRANKFURT
From The Economist print edition

Is John Malone's plan to build a European cable-TV empire doomed?

Reuters



THE decision is not due until the end of the month, but there is little doubt about what it will be. Germany's competition watchdog, the Federal Cartel Office, is expected to reject the *euro*5.5 billion ($4.7 billion) takeover by America's Liberty Media of Deutsche Telekom's remaining cable-TV assets. Deutsche Telekom, the country's dominant telecoms company, has already sold majority stakes in three of the nine regional cable operators; John Malone, Liberty's boss, wanted 100% of the rest, as a big step towards building a European cable empire.

Late last month, the cartel office said that the deal could not go through as it stood. Liberty would have dominated the cable networks through which most Germans receive their TV programmes, acquiring most of the “level 3” infrastructure (the wires running from reception stations to the boundary of viewers' properties) and much of “level 4” (the last few yards, from the street into the home). A separate acquisition, giving Liberty another slice of the fragmented level 4 market, also now looks likely to fail. The stumbling block is that Liberty also has stakes in programme suppliers, and might be tempted to favour its own content over that of rivals.

This would not be so bad, said the cartel office, were Liberty prepared to upgrade the antiquated cable system more speedily than it planned, to offer telephony, Internet access and so forth—and thus become a serious competitor for Deutsche Telekom. (Offering such services over cable networks is standard stuff in America and Britain, but still a novelty in Germany.) Nothing doing, Liberty replied, pointing out that it had already promised to invest *euro*8.3 billion in upgrading the network by 2010. If that was too slow for the cartel office, then too bad.

Liberty further declared this week that the cartel office's reasoning was “groundless”, “astonishing” and bordered on “conjuring tricks”. Even so, if the takeover is blocked the company will not bother appealing to the government for the decision to be overturned, as the law allows. It says it has had enough bureaucracy.

The cartel office has a point: upgraded cable is the best hope for increased competition in fixed-line telecommunications in Germany, which lags behind other countries in this regard. Indeed, the whole reason for the sale is that Deutsche Telekom expected that regulatory pressure would force it to give up control of its cable assets. But if the cartel office sends Liberty packing, it will be gambling that something better will turn up. Deutsche Telekom, groaning under *euro*65 billion of debt, needs to find a buyer quickly. So far, the only likely contender is Compere Associates, a British investment firm that was involved in the sale of one of the three other regional cable operators.

Mr Malone's dream of building a pan-European cable-TV empire would seem to have been dealt a severe blow. So fluid is the German media industry at present, however, that other opportunities may crop up. Above all, the kingdom of Leo Kirch, a debt-laden German media mogul, is likely to be at least partly dismantled by its creditors. That, muses one former executive of the Kirch group, could provide Mr Malone with a chance to buy into, and perhaps reshape, Mr Kirch's loss-making pay-TV channels—which any buyer of Deutsche Telekom's cable assets will be obliged to distribute.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Economist.com BUSINESS
PRINTABLE PAGE VIEW SPONSORED BY
About sponsorship

Auction houses

Lots of trouble

Feb 21st 2002
From The Economist print edition

Bernard Arnault's ambitious plans for Phillips were an expensive mistake

Get article background

FEW thought Bernard Arnault would throw in the towel so quickly. But this week Mr Arnault, the head of LVMH, a luxury-goods conglomerate, sold the company's majority stake in Phillips, de Pury & Luxembourg, an auction house. His strategy to dethrone Sotheby's and Christie's, the duopoly at the top of the auction business, had become too extravagant for LVMH, which issued its fourth profit warning in January. Phillips is responsible for an estimated $150m loss at LVMH last year.

Mr Arnault went on a buying spree in the auction world in 1999, after a failed attempt to buy Sotheby's. The year before, François Pinault, who controls Pinault-Printemps-Redoute, another French stable of luxury goods and Mr Arnault's arch-rival, had acquired Christie's (see article). Mr Arnault bought Phillips, a smaller British auction house, and snapped up L'Etude Tajan, an auction house in Paris. He hired Simon de Pury and Daniella Luxembourg, two former top Sotheby's hands, and renamed the firm Phillips, de Pury & Luxembourg. Last year he merged Phillips's British operations with Bonhams & Brooks, a small British auction house.

Things looked promising for a while: Phillips won some major consignments. Last May it sold a high-calibre collection that belonged to Heinz Berggruen, an art dealer in Berlin. In November, it sold the much-coveted Smooke collection of 20th-century art. Even so, Mr Arnault's aggressive tactics to buy market share were risky and expensive. He gave much higher guarantees (fixed amounts granted to the seller) than his competitors and handed out more generous loans to buyers. Phillips lost several million dollars when the sale of the Berggruen pictures failed to cover the guarantee; its guarantee for the Smooke collection cost it an estimated $80m.

Lately, Mr Arnault has been less willing to provide lavish guarantees and loans. It emerged that Phillips's cash, rather than its expertise, had lured sellers of high-quality art; they returned to Christie's and Sotheby's. So far, Phillips has won no top consignment for the upcoming auctions this spring, despite the current strength of the art market.

Any weakening of the unwelcome interloper is good news for Christie's and Sotheby's, which are still recovering from price-fixing allegations. Alfred Taubman, a former chairman of Sotheby's, who was found guilty of collusion with Christie's over price-fixing in December, is due to be sentenced on April 2nd. Mr Taubman is keen to sell his controlling stake in Sotheby's, maybe even before he appears in the dock again.

Sotheby's has been cleaning its stables in anticipation of the sale of Mr Taubman's stake. It has laid off staff and moved its struggling online business on to eBay, an Internet auctioneer. After all its trials and tribulations, says Puppa Sayn-Wittgenstein, an art dealer in New York, Sotheby's might emerge as the surprise winner.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Economist.com BUSINESS
PRINTABLE PAGE VIEW SPONSORED BY
About sponsorship

Pinault-Printemps-Redoute

Facing the music

Feb 21st 2002 | PARIS
From The Economist print edition

One of Europe's biggest retailers is suddenly scrambling to explain itself

THESE are tough times for Serge Weinberg, chief executive of Pinault-Printemps-Redoute (PPR). Starting in the early 1990s, he used a string of acquisitions to expand PPR from its base in France into a leading international retailer and distributor, and the world's third-biggest luxury-goods group. Shares in PPR performed spectacularly well, peaking at more than *euro*260 ($228) in late 1999 when PPR spent $3 billion to acquire 42% of Gucci, a high-end brand that it now controls. Mr Weinberg and his team were feted as skilled creators of value, as well as clever consolidators of fragmented industries from mail-order sales to electrical-equipment wholesaling.

Today the picture is depressingly different. PPR's shares are languishing at around *euro*120. Investors who once loved the group have abandoned it amid fears that the debts it took on to make acquisitions such as Gucci will throttle it now that market conditions have turned ugly. In January, PPR issued its first-ever profits warning. Standard & Poor's, a credit-rating agency, has threatened to downgrade the company's rating.

Unusually, Mr Weinberg has forsaken his customary silence ahead of PPR's annual results (on March 7th) in order to defend what he sees as unwarranted scepticism towards the group and its prospects. In particular, he hotly disputes the conclusions of analysts who have questioned PPR's transparency and who doubt its ability to grow organically, rather than by making more acquisitions. He blames the firm's trading woes on its exposure in America, which accounts for more than 20% of sales, and in luxury goods, a long-term growth sector that has been hammered in the short term. He thinks the market's fears are grossly overdone.

It is a matter of conjecture how much of PPR's impressive growth has come simply from acquiring, as opposed to growing existing businesses. Analysts such as David Jeary of Credit Suisse First Boston think that acquisitions have accounted for the bulk of PPR's growth, with a low tax charge and clever financing accounting for a further chunk. This issue is important because PPR has, until recently, been valued as a high-growth company. If it has mainly grown thanks to its deal-making and financial skills, investors will rate its future prospects less highly.

After allowing for the fact that Gucci has a cash pile of around *euro*2 billion, PPR has net debts of *euro*6.5 billion. The company reckons it can manage this amount; it says it has around *euro*4 billion of trade receivables that it could securitise. But with its balance sheet so stretched, it will find it difficult to finance any more big acquisitions any time soon.

One obvious option would be for PPR to launch a big rights issue. But it faces a further financial constraint arising from its ownership structure. Its controlling shareholder is Artémis, a private holding company belonging to François Pinault, an entrepreneur whose wood business laid the foundations of PPR in the late 1980s. Artémis is also laden with debt, taken on to fund acquisitions such as Christie's, an auction house. Although Mr Weinberg says Artémis is a supportive owner, it is likely that Mr Pinault would veto a large rights issue because it would be too costly for him to maintain his controlling stake.

The best thing would be to prove by performance that PPR can indeed match other retailers' skills at getting value out of existing assets

Mr Weinberg is frustrated by the market's focus on PPR's acquisition trail. He points out that PPR made no big deals between 1995 and 1998, so there is a precedent for it focusing on organic growth. Moreover, he argues, the group's track record on organic growth withstands scrutiny. Consider FNAC, PPR's music and books retailing chain, for instance. It has successfully expanded outside France in recent years. Since it was bought by

PPR in 1994, its sales have risen almost fivefold. That suggests, he says, that PPR can grow businesses as well as buy them.

Yet growing FNAC required an increase in capital spending and no little patience while managers worked out how to make the format work in countries such as Spain and Portugal—hardly the stuff of heady growth that the market expects from PPR. Even at today's depressed levels, PPR shares trade on an aggressive price-earnings ratio of around 20, a 25% premium on the French market.

There is one final reason why PPR faces an uphill battle to charm investors. In order to take control of Gucci and its cash pile, it had to settle a protracted legal dispute with a rival luxury-goods group, LVMH. As part of the settlement it has guaranteed that minority shareholders in Gucci can sell their shares to PPR for $101.50 each in March 2004. Unless Gucci shares are worth more than that by then, PPR will have to find up to $5 billion, enough to stretch its finances all over again. Mr Weinberg's hope is that Gucci will turn around its ailing Yves Saint-Laurent franchise and boost the shares above the level that will trigger the option.

Mr Weinberg will have to do something if he is to improve the market's faith in PPR. The best thing would be to prove by performance that PPR can indeed match other retailers' skills at getting value out of existing assets. Mr Weinberg would then incontrovertibly have answered the questions asked of him today, and PPR would deserve a premium rating. More likely, perhaps, will be some sort of restructuring that reduces PPR's debts and shifts its portfolio towards fast-growing sectors. But investors might well look on that strategy with renewed scepticism.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Economist.com BUSINESS
PRINTABLE PAGE VIEW SPONSORED BY
About sponsorship

Face value

From Uncle Ben's to Uncle Sam

Feb 21st 2002
From The Economist print edition

Charlotte Beers's job is to fix America's image overseas. Can the schmooze queen of Madison Avenue deliver?

"SHE got me to buy Uncle Ben's rice," said Colin Powell, America's secretary of state, early last year as he defended his appointment of Charlotte Beers as chief spin-doctor. The 66-year-old Texan steel magnolia dresses her poodle in sweaters, flirts with company bosses and is lauded as the most powerful woman in advertising. "There is nothing wrong with getting somebody who knows how to sell something," Mr Powell added. "We are selling a product. We need someone who can rebrand American foreign policy, rebrand diplomacy."

Charismatic and striking, Ms Beers certainly knows how to sell things. In a 40-year career, including stints running two top advertising agencies, Ogilvy & Mather and J. Walter Thompson, she conquered Madison Avenue with a mix of southern charm and sheer audacity. She ate dog food to woo product men at Mars; she wowed managers at Sears by casually dismantling and reassembling a power drill during her pitch.

That was in peacetime. But this is war. By the time Ms Beers took up her post last October, the task of the newly-minted undersecretary of state for public diplomacy and public affairs had changed beyond recognition. September 11th turned the job of improving America's image into a highly sensitive political post, requiring diplomacy and knowledge, particularly of the Middle East.

America's newly-inflamed patriotism may be playing well at home. But abroad, the world's only "hyperpower", as Ms Beers puts it, is often seen as a boorish bully, intimidating its allies and unable to comprehend the hatred it inflames across the Arab world (see chart). Indeed, military success on the ground may only have widened the cultural and psychological gulf between America and some Arab-Muslim nations.

Fixing this will be difficult, wearying, and perhaps impossible. Ms Beers herself calls it "maybe a 100-year project". But she is tackling it with her accustomed energy. True to her marketing roots, she is doing consumer research in weekly meetings with American Muslims, though her first overseas trip (to meet Arab opinion-formers in Britain, Egypt and Morocco) only took place in January.

She has also been pushing her people to get the word out. Since September 11th, State Department officials, including Christopher Ross, an Arabic-speaking former ambassador to Damascus, have made some 2,000 media appearances, mostly on al-Jazeera television. Ms Beers has produced a booklet about terrorism in 30 languages and is trying to portray America as a place of religious tolerance for Arabs through posters, articles and documentaries on Muslim life in America. "I consider the marketing capacity of the United States to be our greatest unlisted asset," she says.

But whether marketing is the right tool to change Arab attitudes is questionable. Wally Olins, a specialist in branding countries, believes America's image is too entrenched and complex—inspiring admiration, jealousy, fear and disgust in equal measure—for a simple branding campaign to work. Ms Beers concedes

this. She has come under fire for public speeches about “brand America” which fuelled criticism of America's naive fixation on image. Mary Matalin, an adviser to Dick Cheney, the vice-president, has warned that the resulting fuss “has cast this patina over the whole operation.”

A hard sell

Ms Beers's success in her old job may have encouraged her to overlook basic marketing laws in her new one. Know your audience, for one. Like most Americans, this daughter of a cowboy, who counts America's domesticity diva, Martha Stewart, among her best friends, naturally assumes that her values are the right ones. She assumes that everyone, given a choice, would want to be American and that the hatred her countrymen encounter overseas must be a tragic misunderstanding. “Everywhere I go”, she says, “I hear that people like the American people, but they don't like our policies.”

This seems to betray a lack of understanding not only of the terrorists, but of millions of non-Americans with completely different views of the world. At a lunch in Cairo, Muhammad Abdel Hadi, a newspaper editor, complained: “Ms Beers expressed herself like President Bush in every way. No matter how hard you try to make them understand, they don't.”

For all of Ms Beers's conversations with Muslims, America's communications have been off-target at best and dangerous at worst, says James Zogby, head of the Washington-based Arab-American Institute. As an example, he cites the decision to focus on Osama bin Laden's apparent guilt in the videotape where he gloats over the September 11th attacks, rather than on what incensed Muslims: a holy man acting like a vainglorious American. “America lost a chance to diminish bin Laden,” says Mr Zogby.

Ms Beers also knows that the best way to damage a brand is to mismatch the image and the reality. Yet whatever gloss she can apply to America's image is wiped away by behaviour beyond her control. As she took part in a daily conference call to co-ordinate public diplomacy, for example, the Department of Defence merrily released doctored photos depicting a clean-shaven, besuited Mr bin Laden—undermining American claims that it never tampers with evidence. And it is not at all clear how the Pentagon's new Office of Strategic Influence, and its controversial initiative to shape opinion towards American military operations, possibly by planting stories in the foreign press, fits in with Ms Beers's own efforts.

With a bit of luck and a lot of money and persistence, Ms Beers may, in time, convince some non-Americans (and possibly even some Muslims) of her cause. But she is unlikely to be able to polish up America's image to the extent that both she and her boss would like. The days when Ms Beers's problems could be solved by eating a little dog food must seem increasingly appealing.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

Car manufacturing

Incredible shrinking plants

Feb 21st 2002 | CHICAGO AND DETROIT
From The Economist print edition

Car factories of the future will be smaller and cleaner, and not all owned by car companies

Get article background

THE Rouge plant in Dearborn on the outskirts of Detroit is the spiritual home of car manufacturing. It was here that Henry Ford developed his manufacturing ideas, creating a huge integrated factory complex that sucked in coal and iron ore at one end and pumped out cars at the other. It became the model for the world's biggest manufacturing industry.

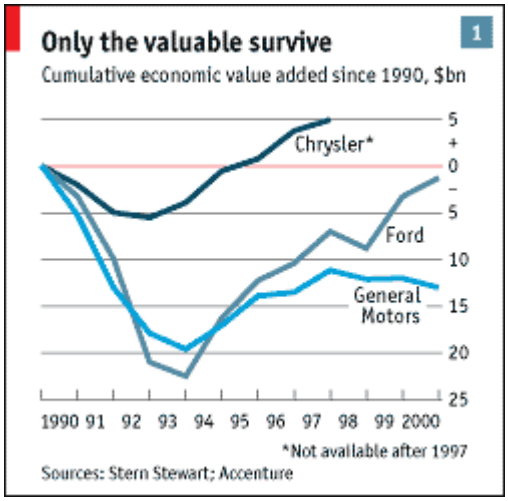
Today, the factory still dominates the view from the office of Ford's current chairman and chief executive, Henry's great-grandson Bill Ford. But it is about to change dramatically. Mr Ford has ordered a $2 billion makeover for the ageing core of the company's manufacturing. He is turning it into a slimmed-down, flexible assembly line that is indicative of modern car making. It will be a far remove from his great-grandfather's original ideas.

By the 1990s, Rouge had turned into a piece of industrial archaeology: many buildings were empty or used only for storage; its ageing blast furnaces had been sold off. Only one assembly line and an engine shop remain. The complex which once employed 100,000 workers making 1,200 cars a day is now down to 3,000 workers making 800 Mustangs a day.

This says two things about the car industry, as relevant in Tokyo or Stuttgart as in Detroit. Not only has it become much more efficient, but its manufacturing structure is changing from the mould created by Henry Ford. Car companies no longer own steel mills, and they are selling off their in-house parts businesses. The whole industry is disintegrating (or becoming less vertical) as vehicle assemblers try to outsource more and more of what they once did for themselves.

The context in which all this is happening is one of over-capacity, varying from 25% in North America to more than 30% in Western Europe. There are signs that this surplus is being trimmed, if only timidly. DaimlerChrysler is closing and selling a handful of factories in America and Europe. Ford ceases volume car making in Britain this week; and General Motors closes its Luton plant next month. Both are also closing lines and cutting jobs in continental Europe. In January, Ford announced that it would shut five plants in North America over the next few years. Car factories in developing markets such as Brazil and China are lying half-empty, though the

incentive there is to hang on to them until growth comes back.



Be nice to suppliers

As the industry's relics are razed, the shape of car manufacturing will change radically. The ultimate pattern, according to industry seers such as J Ferron of PricewaterhouseCoopers, is that today's metal-bashers will disappear. In their place will be vehicle brand owners (or VB0s). They will do only the core tasks of designing, engineering and marketing vehicles. Everything else, including even final assembly, may be done by the parts suppliers.

This happens already with niche cars, such as the Porsche Boxster (assembled by Valmet, an engineering firm in Finland), but one day it might become the pattern for the whole industry. Already Magna, a Canadian company with innovative manufacturing techniques for body parts, is taking over more contract assembly from Detroit. Significantly, the car factory that DaimlerChrysler is selling in Austria is being bought by a Magna subsidiary (Magna Steyr), which will continue to make Chrysler Voyager minivans there under contract. Magna Steyr also has contracts to assemble niche cars for Mercedes, BMW and Saab.

Before anything goes that far in volume car making, the assemblers have to redefine their relationship with their suppliers. They need to become more co-operative and less adversarial before design and engineering processes can be re-assigned. This re-drawing of the boundary between the car company and its suppliers is least advanced in America. In Japan (at companies such as Toyota, Nissan and Honda) and in Europe (with Volkswagen and BMW) it is already working quite well.

The task for American manufacturers is to bring their relations with suppliers into line with Japan's. Ten years ago, the big three manufacturers in Detroit turned aggressively on their suppliers as they sought to recover from heavy losses. The charge was led by Jose Ignacio Lopez, head of purchasing at GM, but the others soon followed, demanding more and more price cuts. Randolph Barba, of the consulting firm Accenture and a distinguished analyst of the industry, says that the traditional Detroit way of dealing with suppliers is “to beat them over the head”.

Head-bashing, however, was not enough to rescue the American industry, although the failure was disguised by the unexpected boom in profitable minivans and sport utility vehicles (SUVs). As this sector grew to account for half the market, the Detroit companies built brand new factories to make SUVs, rather than convert existing car-assembly lines made redundant by the changing market.

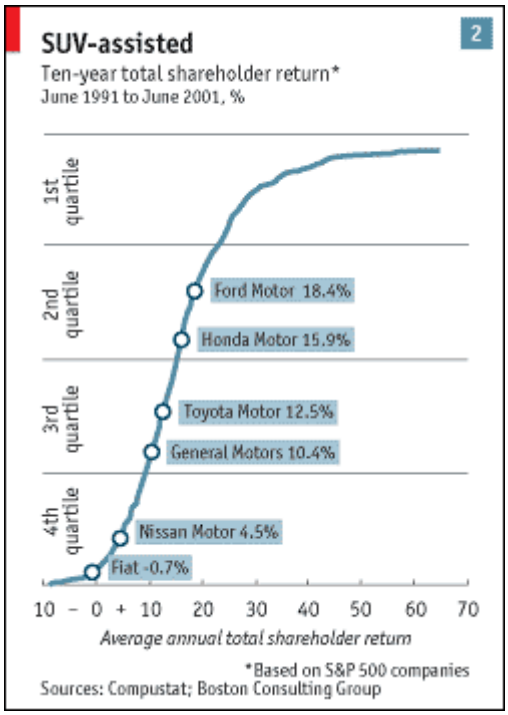
The resulting over-capacity encouraged firms to sell extra cars at marginal prices in order to bring in cash. This set the scene for the widespread discounting and cheap leasing deals that were prevalent before GM led a round of even more special offers to kick-start the industry after September 11th last year. One industry specialist looking round the 700 models on display at January's Detroit motor show commented, “Half of these are not wanted by customers.” John Lindquist of the Boston Consulting Group argues that the car industry has high “barriers to exit”, consisting of management's traditional beliefs, social costs in Europe, the United Auto Workers union in America, and so on. This means that it is difficult for over-capacity to be competed into oblivion, as it would be in most industries.

The reality is that American manufacturers have been losing money on cars, while they have been coining it on SUVs. The main reason why they continue to churn out loss-making cars is to conform with federal guidelines on the average fuel consumption of any one manufacturer's fleet. The small cars compensate for the gas-guzzling SUVs and bring the average down. They also serve as entry-level

products for middle-class college students and young graduates acquiring their first vehicle; the hope is that they will move up through the brand's product range into the profitable gas-guzzlers.

This skewed structure is under pressure now from two angles. One is congressional moves to snare SUVs in tighter rules for what is known as Corporate Average Fuel Economy (CAFE). The other is that Detroit was making money on SUVs only because it enjoyed first-mover advantage as the sector emerged in the 1990s.

This weakness is exposed now that the Japanese are producing competitive models in new and efficient American factories. While they lasted, the fat profits of around $10,000 a vehicle were enough to sustain an appearance of recovery for Detroit. They enabled the companies to achieve reasonable profitability and shareholder returns (see chart 2). “There's no doubt”, says Mr Barba, “that the American car industry innovated its way out of trouble then. But where's the successor to the SUV?”



Wealth destruction

The handsome profits and shareholder returns achieved at points in the 1990s were, to some extent, illusory. When operating profits are measured in relation to the size and cost of capital, the suggestion is that Detroit has for some time been consuming rather more wealth than it has been creating. Mr Ferron maintains that the business model of the traditional American car manufacturer was broken as its return on capital plunged from around 20% in its heyday.

Throughout the 1990s boom, the car makers of Detroit never managed to raise their return on capital above 3%. The traditional system of making cars, pushing them out into a captive dealer market then discounting to sell them, was no longer working. Mr Ferron thinks that car companies are going to turn everything on its head, switching to a system where manufacturing is more responsive to consumer demand. This could have profound implications for car factories around the world, with the emphasis shifting from huge plants seeking maximum economies of scale to smaller, more widely distributed plants that are closer to their markets.

There are pressures building up to such a change. For one thing, the longer that poor returns continue, the harder it is for car companies and parts suppliers to raise capital at sensible rates. The last couple of years of profitless prosperity, with high sales achieved only at the expense of heavy discounts, are not sustainable. Now that the Japanese companies'SUVs are challenging the Americans on their home ground, the big three from Detroit can no longer rely on those products to bail them out. As competition grows tougher, success is going to be limited to those companies which can bring new products to market rapidly and adapt their production quickly.

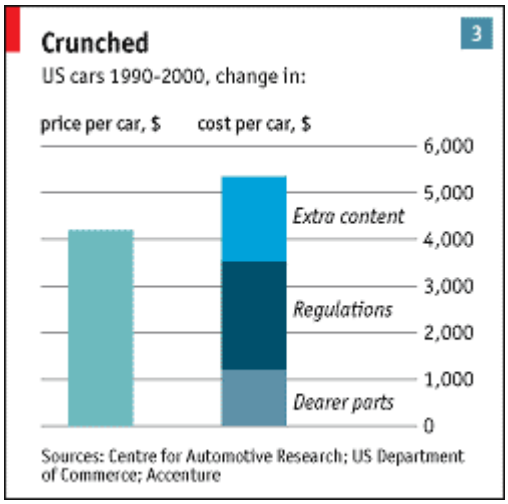
There is also, in saturated markets such as America and Europe, a growing need to design and supply niche models manufactured in small volumes, even though they may be using common parts, such as chassis platforms and engines, which feature in other models. This is putting pressure on manufacturers to go for smaller, more flexible factories. Another factor has been the increasing use (notably by Audi, Fiat and the Mercedes part of DaimlerChrysler) of so-called space-frame technology.

This uses extruded metal parts, which are riveted or even glued together to make up the skeleton of a car body, to which plastic or other lightweight panels can be attached. This dispenses with the expensive machines needed to stamp out load-bearing panels, and so favours the use of smaller, cheaper factories.

The combination of the need for flexible factories to cope with variation in demand for high-volume vehicles, and the need for low-cost, flexible manufacturing for low-volume production (up to 100,000 vehicles a year) is easing out the monolithic large car factory. No one will ever build another Wolfsburg

(Volkswagen's heartland in Saxony, Germany) capable of turning out 750,000 vehicles a year, or another Toyota City, near Nagoya in Japan. Most new factories are now built to make around 200,000 units a year. According to some visionaries, there could be many more built at a tenth of that size, as suppliers take over more of the construction of cars, and car companies themselves move towards a snap-together final assembly, much less complex than today's.

The message about flexible plants is passing rapidly round the industry. The new Rouge assembly plant to make light trucks, SUVs and the like, will be capable of handling three basic platforms (the chassis and underpinning of a vehicle) and nine different model variations built on them. The mix will depend on which models are most in demand.



Honda has probably gone furthest down the road to flexible global manufacturing. Not only are all its car factories capable of making several models, they are also now equipped to switch from one model to another very quickly. It takes Detroit between four and six weeks to alter models in a factory, re-jigging the robots and other tools. Honda can now do it overnight, simply by changing the software in the robots. To achieve this it has installed one single global manufacturing system.

The company developed the system in 1997 in response to the unexpected success of its compact off-roader, known as the CR-V. Koki Hirashima, a Honda board member, says: “At the time we were building CR-Vs exclusively at our Suzuka factory in Japan. But we needed additional capacity to meet demand in America and Europe.” It took five months to set up another Japanese factory to make CR-VS.

So Honda determined to harmonise its production systems—the positioning of welding points in body shops, for instance—in order to make such a switch faster. By the time that currency movements made it sensible to shift part of its Swindon factory in England from making small saloons for Europe to making the CR-V for America, the changeover could be made within weeks. All that was required was a little training of the local staff and some adaptation of the supply chain.

In pursuit of such flexibility, Mr Barba believes that car companies need to re-define their relationship with their parts suppliers. Instead of bashing them on the head, he thinks they should work co-operatively, but avoid duplication. At the moment, when a vehicle assembler pushes out to suppliers the design and development of whole steering or suspension systems, there is still a tendency to engage in “shadow engineering”, retaining teams of engineers to second-guess the supplier.

This is very different from the aerospace industry, for example, where Boeing and Airbus leave engine development to the three makers of large jet engines (General Electric, Rolls-Royce and Pratt & Whitney), and hand over responsibility for their landing gear and avionics to a small number of world-class suppliers.

Despite the residual shadow engineering, though, there are a growing number of car companies that are working fruitfully with suppliers to produce pre-assembled modules, rather than bins of parts. For example, Chrysler used to buy its seals and engine gaskets from a company called Freudenberg NOK. Then the supplier came up with the idea that it should take over responsibility for preventing lubricants and other fluids leaking from Chrysler engines. It went on to design and supply packs of parts to achieve that.

Some have gone further. At Volkswagen's Resende truck factory in Brazil, suppliers were signed up to supply whole sub-assemblies for steering, brakes, suspension, engine and gearboxes, and to fit them on the assembly line—an idea pushed by Mr Lopez when he moved to VW from GM. But chaos ensued as five different unions clashed and no one had control of the truck assembly line.

Yet, according to John Chandler of TBM, a manufacturing consultancy based in North Carolina, it is the truck industry that is successfully showing how to disintegrate car manufacturing. In North America, the fleet buyers of large trucks dictate which engines, gearboxes or braking systems go in their trucks. The vehicle assembler simply takes in and fits what the customer wants. TBM's founder, Anand Sharma, is convinced that the car industry will gradually move to a pattern where most of a car will be made in modules that are simply snapped together in small assembly lines close to the consumer, where details

can be adapted to local tastes. He calls this trend “distributive manufacturing”, which he sees being driven largely by the growing demand for mass customisation (or “build-to-order”) in industries such as PCs.

As easy as driving an Airbus

Mr Ferron thinks that technical change in the foreseeable future could spark a revolution in car making around the world. One outrider, he thinks, was a dramatic chassis shown off by GM at the Detroit Auto Show in January. Called the Autonomy, it is like a car-sized skateboard with a fuel cell tucked between two layers of its floor, and electric engines on each wheel. Different lightweight body shells can be attached. So it can be a roadster in summer and a saloon in winter. Its steering, braking and other controls are all electronic rather than mechanical.

The car industry is very conservative when it comes to introducing electronic systems, despite the fact that they have been used in Airbus aircraft for nearly 20 years. This conservatism is reinforced by the fact that it would need legislation in most countries before vehicles could be authorised as fit for the road without mechanical links between the driver and the steering. Most manufacturers have been working on electronic braking and steering technology; they have also developed fuel-cell propulsion, which is coming close to the point where mass production would make it economic and able to compete with gasoline and diesel engines.

In a recent study, the Boston Consulting Group forecast that fuel cells will power one car in five being produced in 2020; many expect electronic steering and braking to come much earlier. Mercedes thinks it will take about ten years before the young car buyers of tomorrow, brought up on video games, will accept electronic steering. If 2020 seems a long way off to the layman, it is only four product cycles away for a car company. So they have to be thinking about it now.

The significant point about these twin technical revolutions is that they will render obsolete lots of old factories making clunky engines, gearboxes, and even suspension systems. That will be a wrenching change for the car industry. With its myopic attitude it has tended to keep old factories open (being afraid of hostile unions and politicians in both America and Europe). With such high fixed costs, it makes short-term sense to pump out the marginal car for the extra cash that it brings in. The coming technical revolution should make it easier to break the old mould and free a new industry to emerge.

More vehicle brander than metalbasher

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

Banks' capital adequacy

The good tailors of Basel

Feb 21st 2002
From The Economist print edition

Regulators are still struggling with their monster regime for banks

THE Basel committee of rich-country bank supervisors has learned not to make rash promises about its timetable for setting a new capital regime for banks. Originally planned for 2004, the regime, called Basel 2, was knocked back a year last June and has now slipped even further. Without an official announcement, members of the committee talk about a starting date of 2006.

Basel 2 will revolutionise the supervision of leading banks, adjusting the capital required by the regulators to the banks' own measures of the risks they run. It is intended to replace the crude workings of Basel 1, in force since 1988, with greater detail—far too much, indeed. At the same time, the capital rules are also being designed to suit all the other banks in industrialised countries, and eventually worldwide. A version must be applied at the same time to all banks and investment firms in the European Union, under an EU directive yet to be written.

The exercise was never expected to be easy. Critics, including *The Economist*, suggested that it could be done more simply by starting with a small group of the world's biggest banks. Now it seems that the Basel rule makers are beyond the point of no return: they are determined to have a workable version of Basel 2 agreed by the end of the year. Before then they will ask banks to road-test a newly calibrated set of rules, probably in June, so that they can produce a final consultation paper in the last quarter of the year. This is the third test, or quantitative impact study, designed to ensure that the rules will not reduce overall capital in the banking system, or distort financial markets.

The biggest challenge is to persuade banks to progress towards a more advanced measurement of risk, using their own credit ratings rather than those of external agencies such as Moody's and Standard & Poor's. They need to be encouraged by a potential capital saving, but not one that gives them too great a competitive advantage over less sophisticated banks. Previous calibrations have failed to get this right. The first proposals gave little advantage to banks using advanced methods of measuring; later drafts gave too much.

A handful of other knotty issues need to be unravelled before June, mostly in the quantitative part of the regime, known as “pillar one”. There, the treatment of loans to small and medium-sized companies raises concern, especially in Germany; too heavy a charge might starve these companies of credit. The Basel experts think that they have fixed this issue by acknowledging a diversification effect in lending to smaller firms: for banks that spread their lending among small businesses, risk charges can be lowered.

A related task is to modify—even reverse—the incentive given to short-term rather than long-term lending. The Germans, again, worry that Basel 2 will erode the kind of long-term bank lending that is the backbone of corporate Germany. It could also reduce developing countries' access to long-term capital, making them more crisis-prone.

The Basel experts fear that banks will be tempted to arbitrage the difference between the risk-weighting demanded by regulators for a portfolio of loans sold as securities and the risk suggested by their own credit-risk models. Regulators have made such models taboo since they examined them in 1998 and found them wanting—they need huge amounts of data which have not yet been collected. Banks' own models have not been considered for Basel 2, but a regulator says they may be discussed in four or five years' time.

Finally, there is the issue of procyclicality, a concern that a risk-sensitive regime will require banks to raise more capital, and cut back lending, at the toughest part of an economic cycle, so needlessly exacerbating a downturn. Basel experts think this danger can be overcome by asking banks to stress-test their portfolios during good times, for worst-case outcomes, and then build up capital accordingly. Surely a simpler answer is to require an extra buffer of capital—which most well-managed banks have anyway. Yet that would hardly be in the spirit of a risk-based regime.

There is no doubt that the Basel 2 exercise has heightened awareness of risk among banks. It has prompted them to overhaul their credit-scoring methods and to tighten up their operations. It has also forced them to get to grips with a hitherto unregulated area of risk: Basel 2 requires capital as a buffer for operational risk—losses from events such as business interruptions, bomb attacks and rogue trading. The argument continues, though, over whether this risk is measurable and can be solved by carrying more capital. Is capital a better buffer against a rogue trader than the assurance of better controls?

Supervisors are encouraging a shift from capital charges based on hard ratios to charges that reward good risk management. A second part of the Basel 2 regime, called “pillar two”, relies on continuous review by supervisors of a bank's risk management, and of its handling of exposures that cannot be assessed in merely quantitative terms. The last part, “pillar three”, encourages more public disclosure by banks of their structure, performance and risk positions.

The endeavour to build a comprehensive regime, however, threatens daily to add complexity rather than to shed it. The Basel committee touchingly notes that it will seek to balance the need for sensitivity towards risk with the need to be “sufficiently clear and flexible”. One committee member confesses that the opposite tends to be true. “As soon as you develop an approach, it's not too long before you hear from the banks complaining about something. So you adjust—at the cost of a more complex calculation for everybody.” Another committee member refers to the “great monster” of Basel 2 .

A man went to his tailor for the final fitting of a suit and found one sleeve and one leg too short. “Hunch yourself like this, and bend your leg like that,” said the tailor, “and you'll find it fits.” And so it did. The man paid his tailor and hobbled into the street. “Look at that poor fellow, all doubled up,” said a passer-by. “Well,” said his companion, “at least he has a good tailor.” The tailors of Basel 2 may yet produce a similar suit.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

American banks

Cashing in

Feb 21st 2002 | NEW YORK
From The Economist print edition

Some of the winners from bank deregulation may be the ones left behind

THERE is no more mature commercial banking market in America than New York's, and no more mature component than the city's humble branch. Predictably for such an old business, the largest branch network in New York is held by a banking group, J.P. Morgan Chase, whose roots—Chase Manhattan, Chemical Bank, Manufacturers Hanover—go back to the early days of American finance.

In other retailing businesses, such as discount department stores (dominated by Wal-Mart) or hardware (dominated by Home Depot), it would be suicide to enter the fray. Banking is different. Not only are new entrants able to start up in outwardly unprepossessing locations; their established competitors are so busy transforming themselves into investment banks that they appear, without a fight, to be handing over franchises in prime territories.

Two recent arrivals, North Fork Bank from Long Island and Commerce Bank from New Jersey—small institutions from the suburbs, each with about $10 billion in deposits and something under 200 branches—have established a footing in Manhattan. Neither has much of a brand to speak of, or particularly sophisticated products. Yet shares in both have climbed at a rate to make executives at better-known banks wince. The shares of Commerce Bank have the distinction of trading at the highest valuation—measured by their price/earnings ratio—of any bank in the country.

In New York, J.P. Morgan Chase has 97 branches and $75 billion in deposits. North Fork, by contrast, has just 18 branches and $1 billion in deposits, while Commerce Bank has even less to boast of: four branches and $100m in deposits. Yet Commerce and North Fork have seen heady growth throughout their networks, of nearly 30% a year.

Their performance in New York is respectable given their brief tenure. North Fork came in 1997; Commerce only last September. In three years' time Commerce expects to have 22 branches in Manhattan, and $3 billion in deposits. A year later, North Fork thinks it can have 38 branches and $7 billion. The ambitions are not unrealistic. In Philadelphia, which it entered in the late 1980s, Commerce has steadily grown at the expense of First Union, PNC, Mellon and Fleet—all big American banks.

The greatest gains for these tiddlers come when competitors merge. When big banks come together, they typically attempt to crunch incompatible computer systems together and to make savings by cutting staff and branches. They underestimate the effect this has on staff morale and on customer service. Management focuses on the biggest clients and the most sophisticated products, on the assumption that everyone else will stick around. They do not. “I've built my business,” says Vernon Hill, Commerce Bank's chief executive, “by stealing my customers.”

The branches of big competitors often look tatty and frayed. By contrast, those belonging to North Fork and Commerce are spruce. Instead of offering gimmicks such as coffee or cookies, they focus on banking services that offer convenience. In every branch, Commerce has installed coin-counting machines, long abandoned by competitors. The banks are open for long hours. Commerce branches are open seven days a week. A phone centre operates round the clock.

The potential for new business is clear from the way Commerce finds new customers. It looks for locations where banks—including recently merged ones—already operate. It opens its doors and waits for frustrated customers to come in. Mr Hill says it takes, on average, 11 months and $11m in deposits for a branch to reach profitability. In New York, it takes $33m, but only four to six months.

What these banks do not offer is a high interest rate on deposits. Their calculation is that if customers

want a high yield, they go to minimal-service mutual-fund companies. People want banks in order to get instant access to their money, the banks reckon. None of this sounds particularly complicated, and if the normal rules of retailing worked in banking, any strong sign of success would soon be copied. “I'm not worried about competition,” says Commerce's Mr Hill. “Everyone has given up on bank branches.”

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

German household debt

Piles of it

Feb 21st 2002
From The Economist print edition

Germans' spending binge: safe as houses?

IN *The Economist* of January 26th, we said that the total debt of German households had risen from 85% of their disposable income in 1991 to 115% in 2000. This was not only a bigger increase than in America; it also put Germany ahead of America (with debts of 106% of income) in the debtors' league. Nonsense, was the response from many readers; the numbers must be wrong. Germans, they insist, have not succumbed to Anglo-Saxon habits.

An economist at Nomura International, Adolf Rosenstock, says that German households' debt was only 69% of their income at the end of 2000, according to figures from the Bundesbank's monthly bulletin. Our figure came from the Bundesbank's annual publication, *Financial Accounts for Germany.* This uses a wider definition of households, which includes the self-employed, just like the official numbers for American consumer debt. Indeed, these are the same figures as used for international comparisons in the OECD's *Economic Outlook.*

Whether you take the wide or the narrow definition of households, both show a sharp increase in household debt over the past decade. The puzzle is that German consumers have not been behaving as if they were on a borrowing binge: instead, their spending has grown quite slowly in recent years.

One big difference with the United States is that more than the whole of the increase in German households' debt-to-income ratio since 1991 is accounted for by an increase in mortgages to buy property. In America, by contrast, as much as half of the increase consisted of consumer instalment debt or credit-card debt to buy cars, carpets or clothes. Germans like to be profligate, but in a German way.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Pro-forma accounting

Out, by $100 billion

Feb 21st 2002
From The Economist print edition

Nasdaq firms' pro-forma alchemy

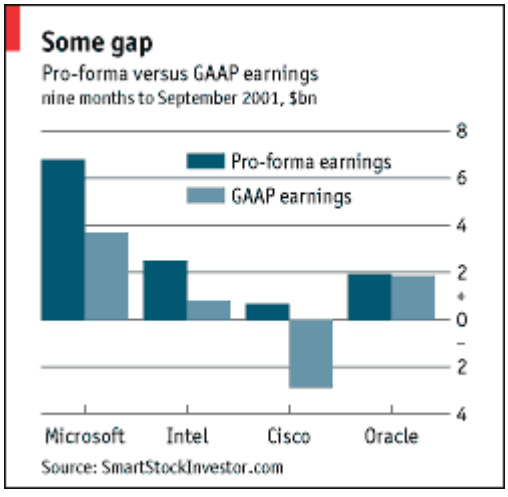
WHAT does a company do when its auditors finally summon up the nerve to stop it manipulating its financial statements? Simple: announce whatever it pleases as “pro-forma” earnings and hope that no one bothers to dig up the figures prepared according to formal accounting standards.

Sadly for companies whose share prices rely on such wizardry, the world is catching up. This week, federal prosecutors in New York opened an inquiry into whether or not the senior managers of Computer Associates, a large software company, deliberately used pro-forma reporting to boost the company's share price for personal gain.

Other technology companies should be feeling uneasy. According to John May of SmartStockInvestor.com, an internet investment site, the companies that make up the Nasdaq 100 index together reported $19.1 billion of profits in pro-forma earnings announcements for the first three quarters of last year. Mr May goes on to point out that those same companies reported to the Securities and Exchange Commission (SEC) a total loss for the same period of $82.3 billion.

The difference, $100 billion give or take, is down to the fact that, whereas the SEC numbers are audited and comply with American generally accepted accounting principles (GAAP), pro-forma numbers are neither audited nor subject to any rules at all. Companies strip out the things they do not like and keep in the items that look pleasing. Cisco, says Mr May, managed to transmute a GAAP loss of $3 billion into a pro-forma profit of $700m (see chart).

Does this matter? In theory, investors and other users of accounts know perfectly well that pro-forma numbers should be treated with deep scepticism. In practice, pro-forma earnings releases do allow companies to mislead investors: they grab the headlines and since they are the first pieces of information that a share analyst has to talk to traders about, they drive valuations and share prices. Proper GAAP numbers do not come out until weeks later.



The SEC has started to crack down on pro-forma abuses. Late last year it issued a warning, and in January it censured Trump Hotels & Casino Resorts for stripping out a negative “exceptional” item, while keeping in another that happened to boost its profits. “The SEC ought to look rigorously at whether pro-forma reporting is misleading,” says Harvey Goldschmid, tipped as a future SEC commissioner. One simple step would be to require companies to produce GAAP numbers far more quickly than they do at present.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Foreign banks in India

One hand clapping

Feb 21st 2002 | MUMBAI
From The Economist print edition

A lukewarm response to new rules on buying local banks

CHANCES of consolidation amongst India's privately-owned banks rose after investment rules for foreign banks were eased on February 16th. Foreign banks may now directly acquire up to 49% of a private Indian bank; before, the limit was just 20%. The threshold for total foreign portfolio investment in a bank may also have been raised to 49%, from 24% (the finance ministry has yet to confirm this). And a rule that barred foreign banks with branches in India from buying into local banks has been abolished. The small print, however, still managed to sap initial euphoria: it contains a proviso that no entity may have more than 10% of the voting rights in a private bank.

This limit has forced core shareholders in private banks to scatter their holdings among family or group companies. The first foreign bank to test the new rule will be ING Barings, a Dutch bank. Its subsidiary, Bank Brussels Lambert (BBL), owns 20% of Vysya, a private bank, and is seeking to buy out the core shareholders of the bank. ING has an insurance joint venture with Vysya.

Next on the block is a 26% controlling stake in Centurion, an ailing private bank. The International Finance Corporation (the private-sector arm of the World Bank), the Asian Development Bank and Keppel Bank of Singapore, which own 35% of Centurion, are also ready to sell some of their shares to a foreigner prepared to turn Centurion around, according to Venkatraman Janakiraman, the bank's chairman.

The 30-odd private banks need capital. They are the fastest-growing banks in India, with a 13% market share by assets. At the eight private banks set up in the early 1990s to showcase India's financial-sector liberalisation, assets have grown by over 50% a year. Still, India's depressed capital markets are hard to tap for capital; the big state banks and insurance companies have too many problems of their own to be providers; and Indian companies may not take more than a 10% stake in banks.

Some private banks have foreign investors already. Two of them, ICICI and HDFC, are listed on the New York Stock Exchange. A British private-equity firm, CDC, picked up 26% of UTI Bank last December.

Other foreign banks want to invest: they certainly have the capital, and it makes more sense for them to buy than to grow. Foreigners' market share in banking has fallen to under 8%. In part because they cannot open branches freely, they are hampered in the growing market for car, home and personal loans.

For instance, Citibank has invested $300m in India, yet it has just 15 branches. Together, the 41 foreign banks have a mere 194 of the 65,000 bank branches in the country. Last year the central bank handed out just 15 branch licences to foreign banks. In January, when it permitted two new private banks, including one in which Rabobank, another Dutch bank, is a partner, the central bank ruled that no new banks could be set up for the next three years.

So a foreign bank that wants a retail branch network might find it cheaper to buy one. At its current share price, a 26% stake in Centurion, with 46 branches, would cost just over $10m. That is about as much as a foreign bank needs to set up a single branch. By buying Vysya, ING would get 450 branches from which it could sell its loans and insurance products.

Several foreign banks are rethinking their strategy in India, partly because of local competition and tougher capital rules in force from April. Commerzbank, KBC, Dresdner Bank and Bank of America have all wound down their operations over the past couple of years. Citigroup, HSBC and Standard Chartered are trying to consolidate their century-old local franchises.

Last year, India's finance minister, Yashwant Sinha, announced that the government is ready to let its controlling stake in 27 state banks drop to 33%. Still, foreigners may not own more than 20% of state banks. State bank shares fell last week even as those of private banks rose.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

Foreign brokers in Japan

Hard times

Feb 21st 2002 | TOKYO
From The Economist print edition

Cracking the market in a downturn isn't easy—and not helped by bad planning

WHEN Merrill Lynch became the first foreign broker to open a retail business in Japan four years ago, it predicted that it would break even by 2001. A year after the deadline, Merrill Lynch is scaling back the business, which has racked up ¥123 billion ($920m) of losses, closing 20 of its 28 branches and cutting 1,200 of its 1,700 employees by mid-March.

Other foreign houses are shrinking or even pulling out of Japan. Morgan Stanley closed its retail securities business last December. Charles Schwab, America's biggest online broker, which had tied up with Tokio Marine & Fire, Japan's largest property-and-casualty insurer, has moved out. Société Générale, a French bank, has also shut its online broking business. Locals are hurting too: on February 19th Moody's, a rating agency, cut the ratings of the second- and third-biggest brokers, Daiwa Securities and Nikko Cordial Securities.

Blame the sluggish economy, falling stockmarkets and increasing competition in the securities industry for the retreat by foreign brokers. Poor planning has not helped either. Merrill Lynch, which bought the retail operations of Yamaichi Securities, a big broker that failed in 1997, lost its best customers and ¥11 trillion in account withdrawals in the seven months it took to complete the deal. Charles Schwab, which set up shop in 2000, was unable to sell Japanese equities for a year because of technical glitches. Even then, it could offer only six issues.

Foreign brokers underestimated the difficulty of breaking into Japan's retail market. Tempted by ¥1.4 quadrillion of household financial assets, and filled with missionary zeal, they hoped to attract customers by offering financial-planning services. They should have been a welcome alternative to domestic brokers, who had been fleecing customers for years—encouraging them to buy and sell shares and mutual funds rapidly to earn extra commissions. Local brokers say that many individuals like to trade this way in equities. They consider it akin to traditional rice markets. Like perishable rice, lasting no more than a year, equities are merely a chance to make quick profits. Long-term investments are different altogether, and are usually stuffed away in conservative bank or post-office accounts.

Other foreign brokers, who took a different approach to Japan's retail market, fared less badly. Take Salomon Smith Barney, now part of Citigroup. In 1999, it chose to link up with Nikko Cordial instead of creating its own distribution network. The tie-up has worked. The venture has access to its Japanese partner's valuable contacts and provides many of the products that Nikko Cordial sells. According to Thomson Financial, Nikko Salomon Smith Barney had the biggest underwriting share of public offerings last year, winning more than a third of all underwriting deals by value.

Some foreigners have approached the retail market indirectly, by selling products through traditional local brokers, as well as through new online brokers. Goldman Sachs, which provides liquidity and other back-up services for online brokers, says these relationships work well because it is not in direct competition with the brokers. Not having to worry about distribution also allows it to concentrate on new products, such as Moon Trade. This is an after-hours online trading service which Goldman and a mouthful of an Internet broker, DLJdirect SFG Securities, launched last year. Although Moon Trade has suffered from recent falling markets, rival brokers admit that Goldman must be making good money as its sole market-maker.

An indirect approach has other benefits. It is less costly, so brokers are less vulnerable to market swings. By distancing themselves from customers, they avoid having their brands tarnished by products that bomb. And they avoid conflicts with other parts of their business, such as buying and selling distressed assets, or advisory work for bankrupt firms—both of which are big in debt-ridden Japan. These can elicit

hostile public reactions, as Goldman Sachs painfully discovered some years ago when it advised the government on the sale of an insolvent bank.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

South Africa's banks

Never a micro-lender be

Feb 21st 2002 | JOHANNESBURG
From The Economist print edition

Some banks are starting to look wobbly

TELL people not to panic, and they usually will. On February 14th South Africa's finance minister, Trevor Manuel, dared to use the p-word in a special address to parliament on the country's banks. Despite a few recent problems, he promised, the banks are in good shape. The following day Tito Mboweni, governor of the Reserve Bank, also chimed in. “South Africa”, he said, “has an internationally recognised sound, sophisticated financial system that operates according to international best practice.” Fair enough. But if that is the case, why are the two of them so worked up?

Because two banks in the past two months have come unstuck. On February 9th KPMG, an accounting firm, was made administrator of Saambou Bank, the country's seventh largest, after customers withdrew over 1 billion rand ($87m) in the previous two days. Many of its 345,000 depositors had got wind that the bank was short of cash. It is South Africa's biggest banking collapse.

Mr Manuel and Mr Mboweni rejected proposals to use taxpayers' money to rescue Saambou, deciding that it could fail without dashing confidence in other banks. Saambou's collapse is painful for its depositors, certainly. But it may yet be sold, so depositors look like getting some of their money back. Those with deposits under 4,000 rand have been allowed to get to their money, and this week the administrator said some others could make a one-off withdrawal. Still, crucially, banks have been reminded they will not be automatically protected if they make bad decisions.

All this followed the near-collapse last month of UniFer, which admitted that it had exaggerated its profits and that it was up to its neck in bad-debt provisions. Trading in shares in UniFer has been suspended. Like Saambou, UniFer had rushed to lend money to South Africans who had never before had a bank account. Government liked the idea, even though borrowers faced high interest charges, since it brought credit to the large black underclass usually ignored by big city banks.

Such micro-lending is thought, by development specialists in poor countries, to be an effective way to encourage new businesses and wealth creation. In South Africa it is seen as a means of generating black-owned capital. This has gone to extremes. An estimated 1,300 registered micro-lenders have made loans exceeding 14 billion rand, and there is little regulation of this risky industry. Too many customers refuse to pay up, or they simply disappear. Saambou and UniFer, plus various furniture chains which extend a lot of credit, have been stung.

Remarkably, on February 18th another bank that promises to specialise in lending to the “previously underbanked” listed on Johannesburg's stock exchange. It was soon clear that Capitec, which gives 30-day loans to poor customers and micro-loans to small businesses, got little enthusiasm from investors.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

The yen

Base effects

Feb 21st 2002
From The Economist print edition

The slide in the yen mainly reflects the Bank of Japan's monetary easing

PRESIDENT GEORGE BUSH tripped the yen up this week, at least for a few minutes, when he said in a press conference that he had discussed “devaluation” with Junichiro Koizumi, Japan's prime minister. American officials hastily clarified that Mr Bush meant deflation, instead.

It would have been better if the two leaders had indeed discussed a weaker yen. For that unmentionable must be part of any policy to rid Japan of deflation. A cheaper yen has become a sensitive subject both for other governments in Asia and American manufacturers. On his recent trip to Japan, Paul O'Neill, America's treasury secretary, said that a “falsely manipulated” yen was not a solution to Japan's economic woes. That reflected a grievous misunderstanding of the reasons for the yen's slide of 14% against the dollar since September.

For years, foreigners have urged the Bank of Japan to print loads of money. That is what it is now doing: Japan's monetary base (currency in circulation and banks' reserves at the Bank of Japan) grew by 23% in the year to January. While Japan's banking system remains crippled, faster growth in the monetary base does not boost bank lending. However, loose money can still help the economy, through the exchange rate.

Japan's monetary base is growing two-and-a-half times as fast as America's. According to the textbooks, an increase in the supply of yen relative to the supply of dollars should reduce the price of the yen—exactly what has happened. The chart suggests that over the past decade, a strong link has existed between relative money-supply growth in America and Japan and the exchange rate. Without the increase in the monetary base, and hence the slide in the yen, Japan's deflation would be even deeper.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Economics focus

Markets as watchmen

Feb 21st 2002
From The Economist print edition

The new international regime for regulating banks ought to give a bigger role to market discipline through subordinated debt

EXPERTS all acknowledge that the world still lacks a system of financial oversight that makes banking a safe and stable business. Given that deposit-taking banks are inherently risky enterprises (they borrow short-term, promise to repay in full on demand, and then lend the proceeds long-term), there may be no such system—short of a radical rethink of what banks are for. Still, in the meantime, regulators ought to be able to improve on the present approach.

The apparently endless efforts to craft Basel 2, a new capital-adequacy standard for banks, are intended to remedy known defects in the existing rules, which were laid down in the first Basel accord and adopted in 1988. Everybody agrees that the new rules must strike a better balance between regulation (with incentives for effective self-monitoring), supervision and market discipline. The signs are that Basel 2 will rightly put more emphasis on the third of these than did Basel 1—but still not as much as it should.

Disclosure of information is one way to help markets keep an eye on what banks are getting up to. Basel 2 will be all for more disclosure. But more information is not enough by itself. Markets also need an incentive to use it. Bank shareholders cannot be relied on to control the risks their bank may be taking: it can make sense for a bank (and its owners) to take a chance on risky lending, in return for high profits. Depositors are equally unreliable as supervisors: deposit insurance (necessary to lessen the danger of a run on the banks) assures a steady inflow of deposits until it is too late. What is needed for effective discipline is creditors who stand to lose if the bank gets reckless, and who have no stake in the profitable upside from unduly risky lending.

Basel 2 will be all for more disclosure, but more information is not enough by itself: markets also need an incentive to use it

The answer, some economists argue*, is simple. Insist that banks issue, in proportion to their deposits, a slice of subordinated debt—that is, debt which will not be repaid in full if the bank defaults. The owners of this debt (unlike shareholders) receive an interest rate determined by the market, rather than a share of the bank's profits; and, unlike depositors, their exposure is uninsured. So the incentives are properly aligned for effective monitoring. The price of this debt in the market ought therefore to reflect the riskiness of the bank's operations. If the bank has to pay a high yield to attract buyers for its subordinated debt, that is an ominous sign.

Strong versions of the subordinated-debt proposal would link regulatory action to trigger-levels of the risk premium implied by this yield. Mild versions would merely have regulators keep an eye on the risk premium as one more indicator they keep under review.

Basel 2 is unlikely to include even the mild version of the idea. The draft proposals rely mainly on encouraging banks to develop their own risk-rating systems. This addresses a big weakness of the current one-size-fits-all approach, but one drawback is obvious: adventurous banks may tweak their systems so that they systematically underestimate risk, leading to a lighter capital requirement. Supervisors will watch out for this, but that may not be enough. Why the reluctance, then, to supplement supervision with market discipline by means of subordinated debt?

Perhaps because regulators think they are better at gathering and interpreting information than markets. The confidence seems misplaced. One recent study suggests that supervisors are better at gathering some kinds of information, markets better at others. Why not use both? Certainly, market discipline puts a lot more people to work on the problem.

Some sceptics question whether the yields on subordinated debt would actually tell you very much. Studies of systems where some banks voluntarily issue subordinated debt suggest that the yields do adjust to the riskiness of the banks' operations. Another problem is that small banks may issue too little debt to support a liquid market, so that trading is infrequent and the yields correspondingly uninformative. One way to get round this would be to require the bank to auction small tranches of debt each month; another would be to exempt small banks from the requirement. A third worry is that the yields would be open to manipulation by insiders. This is a real concern. Supervisors would have to guard against it by keeping an eye on who was buying what in the market for subordinated debt.

These and other drawbacks argue, for now, against adopting a strong version of the subordinated-debt proposal, under which automatic regulatory consequences would flow from fluctuations in yields. It is difficult to see how they weaken the case for the mild version. One could start with a modest requirement, calling only on large banks to issue subordinated debt equivalent to, say, 2% of their total assets. (Many banks would already comply.) Regulators would need to enshrine in an international agreement the principle that holders of this debt would not be bailed out even if depositors and other stakeholders were. Examination of the risk premium could then be integrated in the supervisory “pillar” of Basel 2. Only if this proved useful need regulators think about a stronger version. It is worth a try.

---

* See “The New Basel Capital Accord: Making It Effective With Stronger Market Discipline”, by Harald Benink and Clas Wihlborg, forthcoming in *European Financial Management*, March 2002 (conference draft).

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

Correction

Feb 21st 2002
From The Economist print edition

In the issue of February 7th, we said that St Paul Re was cutting its reinsurance operations by four-fifths. We were wrong. St Paul Re is cutting the number of its international offices, and it has stopped writing aviation, as well as bond and credit, reinsurance. Our apologies.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

The American Association for the Advancement of Science

The fat of the lands

Feb 21st 2002 | BOSTON
From The Economist print edition

Obesity is no longer just a western disease. It is becoming a problem in the developing world too

Reuters

LIKE a needle climbing up a bathroom scale, the number keeps rising. In 1991, 15% of Americans were obese; by 1999, that proportion had grown to 27%. Youngsters, who should have age and activity on their side, are growing larger as well: 10% of Americans under 17 are obese.

Waistbands have been popping in other western countries too, as physical activity has declined and diets have expanded. By and large, people in the rich world seem to have lost the fight against flab. Meanwhile, poorer nations have enjoyed some success in their battles against malnutrition and famine. But, according to research presented at the annual meeting of the American Association for the Advancement of Science (AAAS), held on February 14th-19th in Boston, it is more a case of being out of the frying pan and into the fire. Obesity, anthropologists believe, could become an epidemic of the poor world as well as the rich one.

The battle of the bulge

The first inklings of the problem came from studies of groups of people from the developing world who for one reason or another have been exposed to developed-world diets. Barry Bogin, a biological anthropologist at the University of Minnesota, Dearborn, has studied a group of Mayans from Guatemala and compared them with Mayans who migrated to Florida and California about 25 years ago. Not surprisingly, after one generation of American food, children in the immigrant communities weighed on average 12kg (26lbs) more than their equivalents in Guatemala.

The most striking example actually in the poor world comes from the Pacific islands, home of the world's most obese communities. Stanley Ulijaszek of Oxford University examined data from Rarotonga, the most economically developed of the Cook Islands. In 1966, 14% of the men on this island were obese. By 1996, that proportion was 52%. Astonishingly, Dr Ulijaszek found that 100% of men under the age of 30 in 1996 were obese. It is likely that they will remain so for life.

After one generation of American food, children of Guatemalan immigrants were 12kg heavier than their counterparts back home

Diets and patterns of physical activity are changing with remarkable speed in poorer countries. While industrialisation and urbanisation occurred in the West over a period of centuries, populations elsewhere are moving from labour-intensive rural lifestyles to sedentary urban ones in the space of decades. Until recently though, it was not thought that this would cause obesity to become widespread in developing countries, some of which are still fending off famine.

It now seems that even modest increases in wealth in countries undergoing industrialisation are enough to tip their people from malnutrition to obesity. Barry Popkin, of the University of North Carolina, Chapel Hill, has compiled studies of poor- and middle-income nations in Asia, Africa, the Middle East and Latin America. He says that the emerging epidemic of obesity in the developing world could have even more severe consequences than elsewhere.

Countries such as South Africa and Egypt already have rates of obesity that rival the West's. And the percentage of the population that becomes obese each year in developing countries is worryingly high. In Western Europe and America, 0.5% of people become overweight each year. In China, between 1989 and 1997, the corresponding rate was 1%, as it was in Brazil between 1974 and 1996. In Mexico, between 1988 and 1999, women swelled the ranks of the overweight at the rate of 2.5% a year, as did Korean men between 1995 and 1998.

This increase in weight has been uneven as well as fast. As a result, under-nourished and over-nourished people frequently live cheek by jowl. In India, a survey of 83,000 women found that although 33% were malnourished, 12% were overweight or obese. The mix can even occur within a single household. A study of families in Indonesia found that nearly 10% contained both the hungry and the fat. This is a mysterious phenomenon, but might have something to do with people of different ages being given different amounts of food to eat.

Another long-standing assumption about obesity in developing countries might also need to be overturned. In the developed world, obesity has become a disease of the poor, who eat chips and hamburgers while the wealthier sup on tofu and veggies, and hit the gym afterwards. The opposite was thought to hold true in poor countries, where as a matter of course only the upper classes could afford to eat enough to be overweight.

Dr Popkin, however, claims that the obesity epidemic in the developing world will affect the poor more than the rich, for much the same reasons as in the developed world. A series of studies in Brazil show that in urban areas richer people eat more fruit and less sugar, and do more exercise, than their poorer compatriots. In Mexico and the Dominican Republic, a similar trend pertains.

The knock-on effects of this weight gain on patterns of disease will be dramatic. Diabetes, heart disease and other so-called “diet-related non-communicable diseases” will join the list of ailments straining the public-health facilities of poor countries, many of which are still engaged in fighting off diseases such as malaria and tuberculosis. The number of new cases of adult-onset diabetes in China and India already exceeds new cases in the whole of the rest of the world. An epidemic of cardiovascular disease lies heartbeats away.

The prospect of heading off these problems is bleak. In many affected countries there are cultural factors to contend with, such as an emphasis on eating large meals together, or on food as a form of hospitality. Moreover, there is a good measure of disbelief on the part of policymakers that such a problem could exist in their countries. Add to that a reluctance on the part of governments to spend resources on promoting diet and exercise while starvation is still a real threat, and the result is a recipe for inaction. Unless something is done soon, Dr Popkin warns that it might not be possible to turn the clock back. In the developing world, the food fight seems to have acquired a new front—and it's a frighteningly big one.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Fish stocks

Dead in the water

Feb 21st 2002 | BOSTON
From The Economist print edition

Stocks of the North Atlantic's most valuable fish are in trouble

Get article background

Plenty more fish in the sea?

THE early prosperity of Massachusetts was based on cod, so a meeting held in the state's principal city was, perhaps, an appropriate place to read the last rites over the North Atlantic's fishing grounds. But no good murder mystery is complete without a post-mortem, and this was one of the topics of discussion at this week's AAAS meeting.

A number of academics at the University of British Columbia, in Vancouver, have mapped in fine detail the collapse of fish stocks in the North Atlantic basin. Until now, this was not possible because of the way that data about catches are reported by the United Nations' Food and Agriculture Organisation.

Reg Watson and Villy Christensen divided the North Atlantic into 22,000 grid cells, each measuring ½° of latitude by ½° of longitude. Data from the past century were then painstakingly "retrofitted" on to this grid in order to calculate each cell's biomass of high-value "table fish" (ie, species that are eaten by man, such as cod, haddock and halibut).

The biomass in each cell was reconstructed using a mathematical model that distributes individual species according to known environmental and physical variables, and also historical records of what fish were caught where and when. Then the researchers were able to calculate the fishing intensity as the ratio of the catch data to this biomass.

One result of this work is a clear picture of how fishing expanded from the coasts of North America and Western Europe, pushing out farther and farther into the ocean—something known as serial depletion. This continued until catches peaked in 1975, after which the catch began to decline. Dr Christensen estimates that over the past century the intensity of fishing in the North Atlantic has increased eightfold, while the biomass of table fish has fallen by 85%.

It is not only the amount of fish taken that matters. Fishing alters ecosystems, as well as depleting them, because fishermen favour the largest and most valuable specimens. Alida Bundy of the Bedford Institute of Oceanography, in Dartmouth, Nova Scotia, described this process for the Eastern Scotia fishery region off the coast of Canada.

The Eastern Scotia fishery used to yield cod. Lots of them. But catches dwindled until the early 1990s when they suddenly collapsed. Cod of catchable size vanished. What is more, a moratorium on cod fishing failed to lure them back. The whole ecosystem seemed to have shifted, so that adult cod, once the top predator in the region, had no place in it.

Dr Bundy and her colleagues used Ecopath and Ecosim, two computer programs, to track energy flows through the various species in an ecosystem and explore what had happened. They showed that there had been a shift of top predator from cod to hake and seals. More baby cod were being eaten as a result, so adult cod populations could not recover.

A shift of top predator from cod to hake and seals meant that more baby cod were being eaten

Ironically, this has turned out to be good for those fishermen who are willing to bend to altered circumstances. The new food web favours invertebrate species

such as prawns and lobsters, and their numbers have grown. These are worth more than the fish they have displaced. That does not, however, detract from the fact that, in the North Atlantic as a whole, the productivity of table fish has plummeted and there is no guarantee that profitable invertebrates will fill this gap.

What, if anything, is to be done about it? Ussif Rashid Sumaila, of the Michelsen Institute in Bergen, Norway, suggested modifying the concept of discounted present value in the econometric equations used to describe the exploitation of fisheries. He wants to incorporate the possible interest of future generations in continuing to eat cod, rather than in being rich enough to buy lobster, into the equations.

Such subjective guesswork is unlikely to find favour among mainstream economists. Most economists, though, would look benignly on the removal of subsidies. In the North Atlantic, Dr Sumaila calculates that governments subsidise fishing to the tune of $2 billion-2.5 billion a year. And while EU fishermen are subsidised to less than a fifth of the value of their catches, subsidies to American and Canadian fishermen amount to a third of the value. But, with many stocks in such awful shape, nobody is fishing for any compliments.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

The placebo effect

All in the mind

Feb 21st 2002 | BOSTON
From The Economist print edition

Science has an explanation for placebos

AN OLD medical adage admonishes healers to treat the patient, not the disease. But how a patient treats the disease can sometimes be as important as anything his healer might do. For example, when a patient believes he is receiving treatment, his symptoms often fade miraculously, even if he is only swallowing sugar pills. How such “placebo” effects work has mystified doctors for centuries. At the AAAS meeting this week, some light was shed on the subject.

According to Fabrizio Benedetti, a neuroscientist at the University of Turin, researchers now believe that the placebo effect results from the release in the brain of natural painkillers called endogenous opiates, which are produced when the brain anticipates relief. When people are dosed with a substance that counteracts the effects of these opiates, their response to placebos evaporates. Moreover, the brain also contains a substance called cholecystokinin, which opposes the action of opiates. When patients are given a drug that degrades cholecystokinin, their opiate levels stay higher than normal and their responses to placebos become stronger.

The placebo effect also holds true in reverse. When patients do not know they are receiving treatment, they do not respond to it. Dr Benedetti showed the audience a remarkable video of a patient with Parkinson's disease, an ailment that causes muscle tics and trembling. These symptoms can be alleviated by electrical stimulation of the brain. The video showed that when the patient was unaware that stimulation was being applied, his twitching continued unabated. But as soon as he knew the electrodes had been switched on, his symptoms were reduced.

Even more remarkable is the effect that beliefs can exert on intellectual performance. Claude Steele, a psychologist from Stanford University, has studied differences between the sexes in maths exams. Popular prejudice suggests that women do not perform as well as men in such exams. Dr Steele found that this difference in performance has more to do with differences in confidence than in competence.

He discovered this by administering a maths exam to a set of equally qualified men and women, all of whom were studying the subject at Stanford. As the test was being distributed, one group was informed that it had proved to be sex-neutral: men and women performed equally well in it. To the other group, which acted as a control, no such comment was made.

As popular prejudice predicted men outperformed women in the control group. In the experimental group, however, not only did the women do better than their sisters in the control group, but the men did worse than their brothers there. The result was an equal performance by both sexes. In education as in medicine, it seems, mind acts over matter in yet mysterious ways.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Interstellar travel

Safety in numbers

Feb 21st 2002 | BOSTON
From The Economist print edition

If future humans colonise space, they may take a few lessons from the past

HOW many people are needed in a spaceship? Regular readers will know that *The Economist*'s answer to this question is: “none; space exploration is better done by robots”. But this is true only if scientific information is the goal. If the aim is colonisation, then both men and women are necessary.

In a session on interstellar travel at the AAAS festival in Boston, John Moore of the University of Florida, Gainesville, asked what human population would be necessary for a colonising mission to another solar system.

It would be a long trip. Several bright physicists have spent their leisure hours designing propulsion systems that could send a craft to a nearby star in less than a human lifetime. One popular solution is to unfurl a light sail that would capture the energy beamed at it from a powerful laser in orbit around the sun. The problem is that deceleration at the other end takes so much time and energy that such a system is suitable only for ‘fly-by' missions. A manned craft could take centuries to arrive, and would therefore require some sort of self-contained colony in which people could survive, reproduce and lead something approaching normal lives. The technical, ecological and financial problems of building such a colony ship would be enormous, of course. But even if they were overcome, the society inside would itself have to be viable.

Dr Moore, an anthropologist, set himself the task of designing such a society. He saw the crux of it as a compact between the generations to produce an acceptable crop of spouses for the future. By ‘acceptable' he meant sufficient in number (a minimum choice of ten suitable members of the opposite sex), and of suitable age (within three years of the individual doing the choosing) and consanguinity (not closer than second cousins). A computer model of his devising showed that an initial group of 150-180 people was just big enough to fulfil these criteria. Even when the model was run for 60-80 generations—equivalent to a journey time of 2,000 years—the compact could hold. Coincidentally (or perhaps not) the figure of 150-180 is the number of people which psychological testing has shown that an individual can know well enough to have a permanent social relationship with. It is also the maximum size that anthropologists find for clans of hunter gatherers, villages in pre-industrial societies, and even infantry companies in armies. Dr Moore's woolgathering might therefore have illuminated an important aspect of humanity's past, as well as pointing to its possible future.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

Memoirs of surgery

Cut to life

Feb 21st 2002
From The Economist print edition

A pair of new books reminds us just what an imperfect and impassioned science modern surgery can be

TWO men. Both of them surgeons. One is an Indian practising in the pristine theatres of Boston, Massachusetts, the other a descendant of European Jews who brushes away flies as he operates on makeshift tables in Eritrea, Myanmar and Brazil. Students of the art of healing, both have turned to writing to try and make sense of the world. But what they have to say about surgery, about suffering and about life could hardly be more different.

Atul Gawande is a Harvard graduate and a Rhodes scholar, who has recently been making a name for himself writing in the *New Yorker*. His pieces have been gathered together in a single volume, which will be published in May. In it Mr Gawande casts himself as a guide, holding a lantern across the divide between patient and physician. In his opening essay, Mr Gawande's patient has so much blood in her throat that she can hardly breathe. Only an emergency tracheotomy will save her, but he cuts across her neck the wrong way. Fortunately she survives, but the way in which surgeons learn by practising on patients and how this particular hospital subsequently dealt with Mr Gawande's mistake are the real subjects of his tale.

In another, Mr Gawande investigates a specialist unit that repairs nothing but hernias, in half the time and at half the cost of other hospitals. In a third, he joins 9,000 physicians at an international surgeons' conference which also draws hundreds of salesmen, all there to let the doctors loose on expensive kit—a bright new ultrasonic scalpel ($15,000) or a piece of white bioengineered skin ($95 a palm-sized square). There is a lot of market in the medicine.

Corbis

Mr Gawande is a fine writer, but rarely does he look deeply into himself for his subjects. His 14 essays display only the most haphazard connection, a quality that is enhanced by a certain coolness of tone. Memoirs of medicine are rarely memorable unless their inherent clinical detachment is flooded with humanity, which is why “The Citadel”, A. J. Cronin's chronicle of starting out as a young doctor in a Welsh mining village, is as glorious to read now as it was when it was first published in 1937. Only once does Mr Gawande show real warmth, in an essay about an orthopaedic surgeon who goes bad and whose career is destroyed as a result of his chronic undiagnosed depression. It is easily the best piece in the book.

Messy and disjointed, Jonathan Kaplan's career path is not that of the smooth Mr Gawande. Raised in apartheid South Africa, he came of age as a young medic drafted into the army to serve in Namibia. From there, often carrying little more than his scalpel and a small emergency pack, he travelled from one theatre of war to another, stemming haemorrhages, removing shrapnel and stitching bullet wounds.

Complications: A Surgeon's Notes on an Imperfect Science
By Atul Gawande

Metropolitan Books; 288 pages; $24

Buy it at
Amazon.com
Amazon.co.uk

The Dressing Station: A Surgeon's Chronicle of War and Medicine
By Jonathan Kaplan

Grove Press; 407 pages; $25.
Picador; £15.99

Buy it at
Amazon.com
Amazon.co.uk

Two things save this book from being a rehash of “M*A*S*H”, and turn it into an exceptional journey of record. The first is that in between his intense stretches as a military surgeon, Mr Kaplan takes on some much slower-paced work, which allows him to reflect on the difficulties of saving lives in the third world, where antibiotics and plasma are in short supply and surgeons are often forced to recycle their gloves to avoid running out. The second is that he is unafraid to look within at his own fears and motivations.

For a while he works, like Evelyn Waugh's Gilbert Pinfold, at trying to understand what motivates the boozing passengers on a cruise ship in the South China Sea, and later as an investigator of environmental health hazards when an epidemic of neurological problems and psychosis begins to be seen in the African workers at a chemical factory that makes mercury compounds. The factory's chairman tries to blame “environmental terrorists” for pouring mercury into the compressor that pumped air into the workers' protective breathing masks. This being South Africa, he nearly gets away with it.

The South African investigation leads the author to Brazil, where freelance gold miners use mercury to separate out their precious ore and many suffer the same consequences as the South African workers. While there, he is naturally called on to undertake myriad small operations on the miners and their families. Unlike Mr Gawande, for whom the highest praise comes from a fellow surgeon, commenting on his theatre style: “You're a machine, Gawande”, Mr Kaplan is not looking to improve his career prospects. “My skills were more suited to [these] crude extremes of suffering,” he observes. “I was just a doctor, with uncertain clinical detachment, the vice of restlessness and some tarnished shreds of idealism. It was only in the world's murkiest places that they had any chance to shine.”

As patients, we seek reassurance. Mr Gawande's gliding bedside manner shines through even the goriest bits of hissuture-'n'-scrawl memoir. “The Dressing Station” engages a whole different set of emotions—sympathy for those whose lives are so much more precarious than our own, respect for the author's courage and wonder at the gift that can turn a bloody, messy world into writing that is so wonderful to read.

Complications: A Surgeon's Notes on an Imperfect Science.
By Atul Gawande.
Metropolitan Books; 288 pages; $24

The Dressing Station: A Surgeon's Chronicle of War and Medicine.
By Jonathan Kaplan.
Grove Press; 407 pages; $25.
Picador; £15.99

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Japanese animation

Box-office draw

Feb 21st 2002 | BERLIN
From The Economist print edition

A Japanese cartoon heads for Europe

“SPIRITED AWAY”, the most successful film ever released in Japan, began its conquest of the West this month by winning the Golden Bear award jointly with Paul Greengrass's “Bloody Sunday” at the Berlin film festival.

“Sen to Chihiro no Kamikakushi”—to give “Spirited Away” its Japanese title—is *anime*, Japan's answer to Disney cartoons. But it is not the usual grimy, gory, futuristic *anime*. Hayao Miyazaki, the film's director, has reached back into Japan's folkloric past, as well as “Alice's Adventures in Wonderland”, to craft something more substantial.

While driving to their new home in a western-style Japanese suburb, Chihiro, a spoilt ten-year-old, and her parents take a wrong turn, which delivers them into a parallel world of 8m big gods, lesser gods, ghouls and goblins. Many of these fantastic creatures are guests at Aburaya, a bath-house run by a sorceress called Yubaba. Mum and Dad are promptly turned into pigs—punishment for scoffing food reserved for the gods—while Chihiro is put to work lathering down gods in the hot-tubs.

Mine are pigs

Mr Miyazaki's animation is exquisite. Wind-washed meadows turn into an ocean, across which a train still glides. The real world flickers on the horizon, its skyscrapers shimmering like distant stars. Throughout, an un-Disneyesque moral ambiguity rules. Good and evil co-exist. Chihiro recovers her parents and escapes, but nastiness lingers in the bath-house world, just as it does in the real world. In the end, it is Chihiro who changes, not Yubaba.

“Spirited Away” was made principally for young girls, says Mr Miyazaki, though also “for anyone who used to be ten years old.” That includes Japan's wage-slave men, many of whom will surely recognise themselves in the faceless spectre, lost between worlds, whom Chihiro befriends. The little girl rejects materialism and learns self-reliance: Japan's children could do the same, Mr Miyazaki opines, if only they were freed from their gadgets.

“Spirited Away” opens in France this summer; an English version will follow in the autumn. Can a Japanese blockbuster really make it in the West? Toshio Suzuki, who produced “Spirited Away”, certainly is hopeful. “Miracles happen,” he says.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

New American fiction

All the way Southron

Feb 21st 2002
From The Economist print edition

BRITISH TELECOM built a hugely successful advertising campaign around the catchphrase, “It's good to talk.” Maybe BT's copywriters had been reading Elmore Leonard. “Tishomingo Blues” is Mr Leonard's 37th novel and it is as full of pitch-perfect patter, bare-knuckle verbal sparring and whiplash one-liners as anything he has written.

Tishomingo Blues
By Elmore Leonard

William Morrow; 308 pages; $25.95

Buy it at
Amazon.com
Amazon.co.uk

Dennis Lenahan is an itinerant high-dive artist who makes a perilous living by leaping off an 80-foot ladder into a shallow tub of water. He has taken a job at the Tishomingo Lodge & Casino, an Indian-themed hotel in Tunica County, Mississippi, the rural South's answer to Las Vegas. Also staying at the hotel is Robert Taylor, a hip Detroit gangster with an encyclopedic knowledge of the Delta blues. Robert has come down south on an altogether less innocent kind of business trip than Dennis's. The two men meet and, this being an Elmore Leonard novel, soon get talking. Before long they are in the thick of a slightly impenetrable crime caper involving drugs, prostitution, the local Dixie mafia and a band of obsessive civil war re-enactors.

Fans of Mr Leonard's work will be unfazed by the apparently haphazard manner of his storytelling. For the first third of the book the plot seems to idle, barely ticking over. More and more characters are introduced, each one weirder than the last and all of them happy just to shoot the breeze, when they are not actually shooting each other. Eventually Mr Leonard revs things up a bit and the story starts to gather some momentum. By the last few chapters it is careering along at a spanking clip, until, finally, its various elements converge in a magnificent set-piece and the whole thing comes to rest on a dime.

But the real pleasure of “Tishomingo Blues” is its diverse voices: you don't so much read as listen. Here's Robert, in typically articulate jive mode, telling Dennis all he needs to know about a local crook called Walter Kirkbride in a couple of sentences. “Man has a business over in Corinth, makes these mobile homes aren't mobile. They called manufactured homes, come in pieces and you put 'em together on your lot, where you want. There's one called the Vicksburg, has like slave quarters in back, where you keep your lawn mower and shit. There's one, a log cabin—I know it ain't called the Lincoln Log, this man Kirkbride's all the way Southron.”

Tishomingo Blues.
By Elmore Leonard.
William Morrow; 308 pages; $25.95

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

Global politics

Tea leaves

Feb 21st 2002
From The Economist print edition

HAVING spent most of his career reporting from the world's bleak places, Robert Kaplan has developed a correspondingly bleak view of the possibility of human progress. In previous books and essays, notably “The Coming Anarchy”, he has made a splash by dissenting from the general optimism that greeted the collapse of the Soviet Union and the end of the cold war. The world according to Mr Kaplan is not about to enter a golden age in which all countries gradually adopt the beneficent values of free markets and liberal democracy. The continuities he foresees are different and darker: growing inequalities, collapsed states, crime, terrorism, ethnic hatred and a Hobbesian war of all against all. The modern world, in short, will show unsettling similarities to the ancient one, with all its attendant barbarities.

Warrior Politics: Why Leadership Demands a Pagan Ethos
By Robert D. Kaplan

Random House; 198 pages; $22.95

Buy it at
Amazon.com
Amazon.co.uk

The first and one good chapter of this short new book sketches the possible contours of this coming dystopia. Billions more uprooted people crowd into impoverished cities where global capitalism has smashed traditions, deepened inequalities and stoked up terrorism-spawning hatreds. The West's well-meaning efforts to replace dictatorships with democracies fail to end the intractable problems that produced the dictatorships in the first place. Many of the nation-states created after the colonial era will disintegrate. In some of them, power devolves to new city-states, “high-tech, neomedieval principalities” that are controlled by corporate and military oligarchs, sometimes criminal ones. “As future crises arrive in steep waves,” says Mr Kaplan, “our leaders will realise that the world is not ‘modern' or ‘postmodern', but only a continuation of the ‘ancient' world that the best Chinese, Greek and Roman philosophers might have been able to cope with.”

Reuters

Salvator Mundi

So far, so provocative and interestingly scary. But then comes a fatal conceit. If the modern world is fated to resemble the ancient one, muses Mr Kaplan, there is much that present and future leaders ought to be able to learn from the wisdom of the ancients. Acknowledging cheerfully his lack of classical training, he thereupon attempts to distil in fewer than 200 pages the lessons for contemporary statecraft suggested by, inter alia, Thucydides's account of the Peloponnesian war, Livy's of the war with Hannibal and Sun Tzu's “Art of Warfare”. Antiquity, however, is not enough to fill his large canvas. He also provides sketches of Hobbes, Kant, Malthus and Machiavelli. Achilles's war on Troy is likened to Osama bin Laden's attacks on America. Churchill receives much attention, not only for the heroism of 1940 but for the account he gives in “The River War” of Britain's 19th-century war in Sudan. The final chapter, on Tiberius, draws a parallel—in fewer than six pages—between the dilemmas confronting the first-century Roman emperor and those facing the present American imperium.

The book is a confused sequence of historical observations, from which Mr Kaplan makes undisciplined extrapolations and arrives, for the most part, at embarrassingly banal conclusions. His analysis of Tiberius leads to the daring suggestion that “our future leaders could do worse than be praised for their tenacity, their penetrating intellects, and their ability to bring prosperity to distant parts of the world under America's soft imperial influence.” From Machiavelli he learns that values are useless without arms to back them up. When he is not being banal, he is tweaking the evidence to support the proposition, familiar to readers of his previous writing, that the West needs to adopt a hard-headed realism about its ability to exert a civilising influence on the coming anarchy. That idea is worth having a serious argument about. But not on the basis of this over-ambitious book.

Warrior Politics: Why Leadership Demands a Pagan Ethos.
By Robert D. Kaplan.
Random House; 198 pages; $22.95

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

Robert Mugabe

Tyrannosaurus Rex

Feb 21st 2002
From The Economist print edition

Get article background

WHEN he first came to power in Zimbabwe 22 years ago, committed to a policy of reconciliation, Robert Mugabe was hailed as a great African statesman. Today he is seen as just another elderly African despot. He has ruined a once sound economy, and is having to count on ballot rigging and murderous thugs to win him re-election next month (see article). What went wrong?

Martin Meredith, a prolific and knowledgeable writer on southern Africa, believes that exaggerated hopes caused predictable disappointment. The West was so desperate for an African success story that it resolutely overlooked Mr Mugabe's manifest inadequacies. The president was never committed to democracy, Mr Meredith says. Only relentless pressure from the African countries that provided bases and support for his guerrillas persuaded him to negotiate with Ian Smith's regime. He wanted to continue a "liberation struggle" that had already cost 30,000 lives and so win a revolutionary mandate to impose a one-party state.

Our Votes, Our Guns: Robert Mugabe and the Tragedy of Zimbabwe
By Martin Meredith

PublicAffairs; 256 pages; $26.
Published in Britain as "Mugabe: Power and Plunder in Zimbabwe"; £15.99

Buy it at
Amazon.com
Amazon.co.uk

Mr Mugabe's western backers, including the IMF and the World Bank, remained blinkered even when he unleashed his North Korean trained 5th Brigade on the Ndebele people, the old enemy of Zimbabwe's Shona majority. These soldiers waged a campaign of mass murder.

The Mugabe government's economic failures were harder to ignore. As the economy went into free fall, with much of the country's productive white commercial farmland being acquired by Zanu-PF's citified elite, the country faced starvation. Desperate for somebody else to blame, Mr Mugabe demonised the whites at home and abroad. Many who stayed on after 1980 have recently left.

Mr Meredith's book has been hurried out before the presidential election. It has no introduction and a shoddy index, and the new names of towns on its map become old names in the text, so that Kwekwe remains Que Que and Gweru is still Gwelo. But these are minor faults in the best argued and best written indictment yet of the man Nelson Mandela mockingly calls Comrade Bob.

Our Votes, Our Guns: Robert Mugabe and the Tragedy of Zimbabwe.
By Martin Meredith.
PublicAffairs; 256 pages; $26.
Published in Britain as "Mugabe: Power and Plunder in Zimbabwe"; £15.99

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

The Russian economy

Getting the measure of the bear

Feb 21st 2002
From The Economist print edition

The highs and lows of the Russian economy are often misunderstood, which makes it difficult to predict the future, as three new books explain

“RUSSIA is always stronger, and weaker, than it looks.” That adage has often been cited by analysts of the country's military prowess. Time and again the outside world has been astonished by Russia's ability to recover from utterly hopeless situations—and to squander positions of unassailable strength.

Russian economic reality is also extremely hard to capture, and for that reason its strengths and weaknesses are often overestimated. Many intelligent people, from western Sovietologists to Mikhail Gorbachev himself, underestimated the sheer exhaustion of the Soviet economic machine in the 1980s. With or without a relatively wise and prudent manager of decline, such as Mr Gorbachev, the system was doomed to collapse. It was not, as he and his western admirers wanted to think, a semi-functioning system whose deficiencies could be corrected by a bit of tinkering. Russia was much weaker, economically, than it appeared, and far less able to maintain military parity with an expanding American arsenal than most analysts (the most accurate of whom turned out to be a minority school of mavericks within the CIA) had realised.

In the mid-1990s, when a market of sorts began to emerge and the Russian economy found a new equilibrium, there was a surge of optimism. Inflation fell, the rouble stabilised and living standards in Moscow rose. But this giddy euphoria was quenched overnight in the financial crisis of August 1998, when the government defaulted on much of its domestic debt and the rouble collapsed to a quarter of its previous value.

Since then, some of the gloomier commentary that was heard immediately after the crash—that the whole capitalist experiment had been an empty charade, or that Russia might have much further to fall—has also proved to be overblown. The cheaper rouble has boosted domestic production, and a relatively young, energetic president, with a convincing election victory behind him, seems well placed to rationalise the economy further. Yet despite the current mood in Moscow, a good case can be made that Russia's economy is now weaker than it looks, when the obsolescence of its Soviet infrastructure is taken into account. And it is quite possible that the next dramatic change in Russia's economic statistics will be for the worse.

Armageddon Averted: The Soviet Collapse 1970-2000
By Stephen Kotkin

Oxford University Press; 258 pages; $25.00 and £16.99

Buy it at
Amazon.com
Amazon.co.uk

Building Capitalism: The Transformation of the Former Soviet Bloc
By Anders Aslund

Cambridge University Press; 536 pages; $80 and £55

Buy it at
Amazon.com
Amazon.co.uk

Russia's Post-Communist Economy
Edited by Brigitte Granville and Peter Oppenheimer

Oxford University Press; 570 pages; $85 and £60

Buy it at
Amazon.com
Amazon.co.uk

Is there anything inevitable about the sharpness of Russia's economic mood swings? Useful evidence for anyone considering this conundrum is provided by Stephen Kotkin's broad-brush account of Russia before and after the collapse of communism, “Armageddon Averted”, and by the more technical economic analysis offered by veteran Russia-watchers such as Anders Aslund, author of “Building Capitalism”, and Brigitte Granville and Peter Oppenheimer, joint editors of acollection of essays on “Russia's Post-Communist Economy”.

These writers have a keen sense of the complex interplay between economics and politics which has overshadowed Russia's transition. Mr Kotkin, in a short but sweeping and often shrewd analysis, points out that western-style capitalism—as opposed to “crony” capitalism, dominated by a handful of well-connected insiders—has never really been tried in Russia. So Slavophiles who argue that Russia is too

idiosyncratic a country to be squeezed into a single, western-designed economic straitjacket are neglecting an important point.

As Mr Aslund and several other writers recall, Russia has had only one uncompromisingly market-minded administration in the last decade: the cabinet of reformers headed by Yegor Gaidar, which held office for the first quarter of 1992, until the old guard of politicians and industrial managers insisted on slowing down the process. After that, the introduction of market economics proceeded by fits and starts; it required a series of tactical compromises with constituencies—ranging from communist factory bosses to the well-connected tycoons known as the oligarchs—which had no interest in the establishment of a genuinely level playing-field.

When, after the August 1998 crash, a group of Soviet-style apparatchiks led by Yevgeny Primakov took over the economy, they found that market economics had gone too far to be easily reversed. The reformers had wanted to change faster, but this was politically impossible; Mr Primakov was tempted to turn back the clock, but this proved economically impossible. That was one reason, then, why the consequences of the August crash have turned out not to be so bad after all.

Another unforeseen effect of the crash—worthy of more attention than it receives in these books—was the way in which some oligarchs were cut down to size. Just as the old-guard communist apparatchiks of the late Soviet era could only be dislodged, in the end, by the 1991 coup, it may have required nothing short of a crash to weaken some of the oligarchs and loosen their stranglehold on Russia's proto-capitalist economy.

Armageddon Averted: The Soviet Collapse 1970-2000.
By Stephen Kotkin.
Oxford University Press; 258 pages; $25.00 and £16.99

Building Capitalism: The Transformation of the Former Soviet Bloc.
By Anders Aslund.
Cambridge University Press; 536 pages; $80 and £55

Russia's Post-Communist Economy.
Edited by Brigitte Granville and Peter Oppenheimer.
Oxford University Press; 570 pages; $85 and £60

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

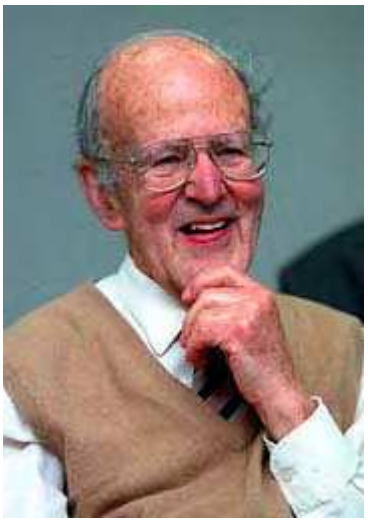
About sponsorship

Max Perutz

Feb 21st 2002
From The Economist print edition

Max Ferdinand Perutz, scientist, died on February 6th, aged 87

AP



A FAVOURITE word of Max Perutz, if perhaps an unscientific one, was “Fantastic!”, with the exclamation mark given its full value. In the spring of 1953 at the Cavendish Laboratory in Cambridge he was using the word quite frequently. Francis Crick and James Watson were solving the structure of DNA. Mr Perutz and his colleague John Kendrew were advancing the knowledge of molecular biology. All four men were to be awarded Nobel prizes as a result of their work in that spring. Since the 1950s the laboratory and its successors have been home to the winners of nine Nobel prizes.

If you can say that the spirit of a place can inspire people to do, well, fantastic things, the Cavendish is a telling example. This homely building was a birthplace of nuclear physics and other earth-moving developments. As a chemistry student working for a doctorate Max Perutz came under its spell. His native Austria was absorbed by Germany in 1938. Cambridge, he said, was where he wanted to spend his life. In Cambridge Lawrence Bragg was working on a method of examining the molecular structure in a crystal by shining X-rays through it (for which he had got a Nobel at the age of 25, still the youngest recipient). Some molecules, such as those of salt, had been found to have simple atomic structures. Young Max boldly suggested that X-ray crystallography might be used to examine more complex molecules, such as proteins, which make up organisms.

A friend proposed haemoglobin, whose large oxygen-carrying protein molecules make red blood cells red. Haemoglobin carries oxygen and carbon dioxide through the bloodstream with great efficiency, essential to life. How it did this was a mystery, although it was evident that the molecules changed shape during their journey.

An obliging physiologist grew Mr Perutz some crystals of haemoglobin of horse. Bragg saw at once the attraction and immensity of dealing with so large a structure. “Haemoglobin of horse!” Mr Perutz was to exclaim. Sometimes, he said, the difficult choice for his experiments “seemed like a curse”. In 1939 Mr Perutz encountered a different sort of curse. His experiments were delayed with the outbreak of the second world war and Mr Perutz was interned as an enemy alien.

The ice aerodrome

Max Perutz came from a moneyed family of textile manufacturers who moved to Britain when their business was confiscated. Max had been expected to study law but at university in Vienna had found science vastly more attractive. As happened to many scientists who found freedom in Britain, he was first detained and then released to resume his scientific work. In one of the odder exploits of the war Mr Perutz was asked to examine the mechanical properties of ice, with a view to creating an aerodrome of ice in the middle of the Atlantic. Someone high up in the government had discovered that before the war Mr Perutz had published a paper on the science of glaciers (in order, he sometimes said, to justify skiing holidays). The project was named Habakkuk, after a Jewish prophet who foretold beastly punishments on the wicked. It was abandoned when military aircraft were developed with enough range to make a mid-ocean stop unnecessary.

In Cambridge after the war, Mr Perutz became chairman of the Medical Research Council Laboratory, a unit at the Cavendish, where the tools of physics were applied to biological problems. He kept the administration minimal and informal, qualities that helped to make the laboratory a magnet to attract other gifted researchers. “Mountains of futile paperwork” can kill creativity, he said.

In his own tenacious pursuit of a scientific goal he was what a colleague said was “a force of nature”. In a series of experiments during the 1950s and 1960s by Mr Perutz the mystery of the haemoglobin molecule's efficiency began to yield. What was true of haemoglobin proved to be true about scores of other proteins. A colleague at the Cavendish said last week that Mr Perutz's work on protein structure had become especially relevant as scientists sought to make sense of the human genome and the mechanisms of disease.

Max Perutz wrote many essays and reviews. One of his collections is typically called “Is Science Necessary?” He had a happy facility at explaining science vividly, whatever his audience, school children, prime ministers, journalists or other scientists. If Mr Perutz was seen to have an eccentricity, it was perhaps about food. He could not digest anything made with flour, nor onions, pepper or most spices. He liked soft foods, such as ripe bananas, or cold boiled potatoes with butter. He stepped down as chairman of the Cambridge laboratory at 65, but never really retired. Over the past 22 years he published more than 100 papers.

Mr Perutz turned down the offer of a knighthood. He said that at the laboratory the most junior member could talk science with anyone: a handle to the chairman's name could only get in the way. Anyway, his wife Gisela didn't want to be Lady Perutz. He was made a Companion of Honour and was awarded the Order of Merit, both of which are far rarer than knighthoods. Fantastic!

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Overview

Feb 21st 2002
From The Economist print edition

Inflation continues to slide in **America**. Consumer prices rose by 0.2% in January, following three months of decline. However, the 12-month rate of inflation fell to 1.1%, its lowest for 15 years. Producer prices also rose in January, but by much less than expected (0.1%), leaving them 2.6% lower than a year earlier.

America's industrial production fell again in January, by 0.1%; output is now 7.3% below its peak in June 2000. Factories' capacity utilisation fell to only 74.2%, the lowest for 19 years. The University of Michigan's index of consumer confidence fell in February for the first time since October. However, America's housing market remains surprisingly robust: new housing starts rose by 6.3% in January, to their highest level for two years.

Canada's 12-month rate of consumer-price inflation unexpectedly rose in January, to 1.3%; its core rate (excluding energy and food) increased to 1.8%. But both measures remained comfortably below the Bank of Canada's inflation target of 2%.

According to the Bundesbank's preliminary estimate, **Germany's** GDP fell by an annualised 1% in the fourth quarter, its third consecutive quarter of decline. **Spain's** GDP growth slowed to 2.3% in the year to the fourth quarter, from 3.7% a year earlier.

However, other indicators suggest that the **euro area** economies are starting to perk up. Industrial production in the euro area rose by 0.8% in December, the first rise since August, although output was still 4.1% lower than a year ago. An index of growth expectations compiled by the **German** institute ZEW (from the views of analysts and institutional investors) jumped sharply in February, the fourth successive monthly rise. The ISAE index of **Italian** consumer confidence rose to its highest for almost 12 years in February.

The **Japanese** yen wobbled as investors' hopes that the government was about to inject public funds into the banking sector were disappointed. Japan's current-account surplus fell to $91 billion in 2001 from $117 billion in 2000. Its visible-trade surplus fell by almost two-fifths, but the surplus on investment income surged to a record $73 billion, overtaking the trade surplus for the first time.

Britain's visible-trade deficit jumped to a record $48.4 billion in 2001. Strong consumer demand sucked in imports, while exports were squeezed by the strength of sterling and weak overseas demand.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Output, demand and jobs

Feb 21st 2002
From The Economist print edition

% change at annual rate

	GDP			The Economist poll GDP forecasts		Industrial production		Retail sales (volume)		Unemployment % rate		
	1 qtr	1 year		2001	2002	latest		latest		latest		year ago
Australia	+ 4.6	+ 2.5	Q3	+ 2.2	+ 3.3	+ 0.4	Q3	+ 4.8	Q4	7.0	Jan	6.3
Austria	– 0.3	+ 0.9	Q3	+ 1.0	+ 1.0	– 5.5	Nov	nil	Oct	4.2	Dec	3.6
Belgium	+ 0.1	+ 0.6	Q3	+ 1.1	+ 1.0	– 6.4	Dec*	– 2.5	Oct	10.9	Jan*	10.7
Britain	+ 1.0	+ 1.9	Q4	+ 2.4	+ 1.9	– 4.6	Dec	+ 4.2	Jan	5.2	Dec†	5.3
Canada	– 0.8	+ 0.8	Q3	+ 1.4	+ 1.4	– 6.0	Nov	+ 5.0	Nov	7.9	Jan	6.9
Denmark	+ 3.5	+ 1.4	Q3	+ 1.1	+ 1.3	– 6.3	Dec	+ 1.5	Dec	5.0	Dec	5.4
France	+ 1.8	+ 1.9	Q3	+ 2.1	+ 1.4	– 1.7	Dec	– 0.6	Dec	9.0	Dec	9.0
Germany	– 0.6	+ 0.3	Q3	+ 0.7	+ 0.7	– 3.5	Dec	– 4.1	Dec	9.6	Jan**	9.3
Italy	+ 0.6	+ 1.9	Q3	+ 1.8	+ 1.1	– 4.1	Dec	– 0.9	Nov	9.3	Oct	10.0
Japan	– 2.1	– 0.5	Q3	– 0.4	– 1.3	–14.9	Dec	– 4.4	Dec	5.6	Dec	4.9
Netherlands	nil	+ 0.4	Q4	+ 0.9	+ 1.1	– 6.2	Dec	+ 0.5	Nov	1.9	Jan§	2.6
Spain	+ 0.7	+ 2.3	Q4	+ 2.6	+ 1.8	– 4.5	Dec	na		12.9	Dec	13.5
Sweden	+ 0.2	+ 0.4	Q3	+ 1.2	+ 1.4	+ 0.9	Dec	+ 1.0	Dec	3.6	Dec*	3.7
Switzerland	+ 0.1	+ 0.8	Q3	+ 1.4	+ 0.9	+ 1.9	Q3*	+ 1.2	Dec	2.6	Jan*	2.0
United States	+ 0.2	+ 0.1	Q4	+ 1.1	+ 1.2	– 5.2	Jan	+ 6.5	Dec	5.6	Jan	4.2
Euro area	+ 0.4	+ 1.4	Q3	+ 1.5	+ 1.1	– 4.1	Dec	+ 1.3	Nov	8.5	Dec	8.5
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*											
Finland	+ 5.0	nil	Q3	na	na	– 3.1	Dec	+ 5.0	Oct	9.9	Jan*	9.9
Greece	na	+ 4.4	Q3	na	na	+ 0.7	Nov*	+ 4.1	Oct	na		na
Iceland	na	+ 3.6	2000	na	na	+ 2.5	2000	na		1.8	Dec	1.3
Ireland	na	+ 9.2	Q2	na	na	+ 1.6	Dec	+ 3.5	Nov	4.1	Jan	3.6
Luxembourg	na	+ 8.5	2000	na	na	+ 6.1	Nov	+10.0	Oct	2.7	Dec	2.6
New Zealand	+ 2.8	+ 2.1	Q3	na	na	+ 2.6	Q3*	+ 7.4	Q4	5.4	Q4	5.6
Norway	+ 1.0	+ 1.8	Q4	na	na	+ 1.2	Dec	+ 2.2	Dec	3.3	Q4	3.1
Portugal	– 1.0	+ 1.3	Q3	na	na	– 2.2	Dec	nil	Dec	4.0	Q3	4.0

*Not seasonally adjusted. †Oct-Dec; claimant count rate 3.2% in Jan. §Nov-Jan. **EU harmonised rate 8.1% in Jan.

Text refers only to the first 16 countries listed

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Prices and wages

Feb 21st 2002
From The Economist print edition

% change at annual rate

	Consumer prices* latest		Consumer prices* year ago	The Economist poll consumer prices forecast 2001	The Economist poll consumer prices forecast 2002	Producer prices* latest		Producer prices* year ago	Wages/earnings latest		Wages/earnings year ago
Australia	+ 3.1	Q4	+ 5.8	+ 4.1	+ 2.4	– 0.7	Q4	+ 8.4	+ 4.0	Q3	+ 6.5
Austria	+ 1.9	Dec	+ 2.6	+ 2.6	+ 1.5	– 0.4	Jan	+ 3.2	+ 2.7	Dec	+ 2.2
Belgium	+ 2.9	Jan	+ 2.2	+ 2.5	+ 1.5	– 2.6	Dec	+ 7.3	+ 3.1	Q4	+ 1.6
Britain	+ 1.3	Jan	+ 2.7	+ 1.9	+ 1.9	– 0.5	Jan	+ 1.7	+ 3.3	Dec	+ 4.4
Canada	+ 1.3	Jan	+ 3.0	+ 2.6	+ 1.2	– 2.3	Dec	+ 2.4	+ 2.5	Nov	+ 2.6
Denmark	+ 2.5	Jan	+ 2.3	+ 2.3	+ 1.8	+ 0.6	Jan	+ 4.1	+ 4.3	Q3	+ 3.8
France	+ 1.4	Dec	+ 1.6	+ 1.7	+ 1.1	– 1.6	Dec	+ 4.7	+ 4.1	Q3	+ 5.3
Germany	+ 2.1	Jan	+ 2.4	+ 2.4	+ 1.2	+ 0.2	Jan	+ 3.8	+ 1.9	Nov	+ 1.8
Italy	+ 2.4	Jan	+ 3.0	+ 2.5	+ 1.8	– 1.3	Dec	+ 6.2	+ 2.8	Dec*	+ 1.7
Japan	– 1.2	Dec	– 0.4	– 0.7	– 0.9	– 0.6	Jan	+ 1.1	– 0.5	Dec*	+ 1.0
Netherlands	+ 4.0	Jan	+ 4.2	+ 4.8	+ 2.4	– 2.2	Dec	+ 7.6	+ 4.6	Nov	+ 3.3
Spain	+ 2.7	Dec	+ 4.0	+ 3.6	+ 2.3	– 0.8	Dec	+ 5.0	+ 3.6	Q3†	na
Sweden	+ 2.9	Jan	+ 1.7	+ 2.6	+ 2.0	– 0.8	Dec	+ 3.7	+ 3.0	Nov*	+ 2.2
Switzerland	+ 0.5	Jan	+ 1.3	+ 1.0	+ 0.6	– 1.4	Jan	+ 1.4	+ 1.3	2000	+ 0.3
United States	+ 1.1	Jan	+ 3.7	+ 2.9	+ 1.4	– 2.6	Jan	+ 4.8	+ 4.0	Jan	+ 3.9
Euro area	+ 2.5	Jan	+ 2.4	+ 2.6	+ 1.5	– 1.1	Dec	+ 5.4	+ 2.9	Q3	+ 2.5
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*										
Finland	+ 1.6	Dec	+ 3.5	na	na	– 1.3	Jan	+ 4.5	+ 4.3	Q4*	+ 5.0
Greece	+ 4.4	Jan	+ 3.4	na	na	+ 2.4	Dec	+ 6.7	na		na
Iceland	+ 8.9	Feb	+ 4.1	na	na	+11.4	Jan	+ 4.4	+ 9.6	Dec	+ 7.6
Ireland	+ 4.2	Dec	+ 5.9	na	na	nil	Dec	+ 4.5	+ 8.7	Q3*	+ 7.4
Luxembourg	+ 1.7	Dec	+ 3.5	na	na	– 1.1	Nov	+ 5.0	+ 3.4	Aug*	+ 7.0
New Zealand	+ 1.7	Q4	+ 4.0	na	na	+ 6.2	Q3	+ 8.4	+ 2.2	Q4	+ 1.6
Norway	+ 1.3	Jan	+ 3.4	na	na	– 8.2	Jan	+ 3.3	+ 4.6	Q3*	+ 4.2
Portugal	+ 3.5	Jan	+ 4.4	na	na	– 9.4	Dec	+13.5	+ 2.4	Apr*	na

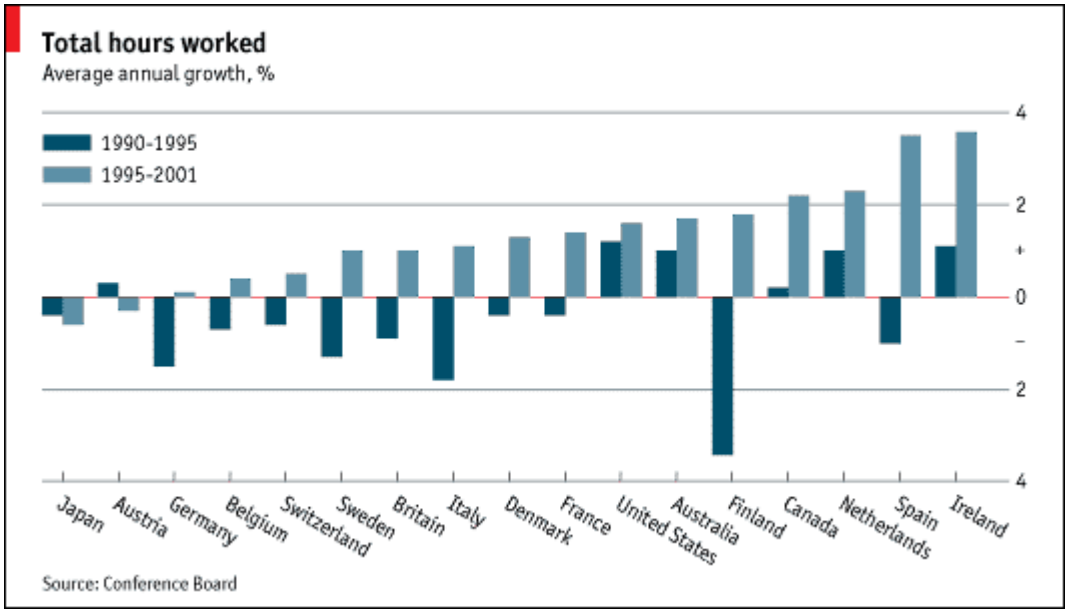
*Not seasonally adjusted. †New series.

Text refers only to the first 16 countries listed

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Total hours worked

Feb 21st 2002
From The Economist print edition



America's capacity to create jobs is legendary and a contrast to Europe's arthritic labour markets. But Europe is becoming more flexible. Between 1990 and 1995, total hours worked in the EU fell by an annual average of 1.0%, while from 1995-2001 hours worked rose by an average of 1.2%, not far behind America's 1.6% rate of growth. In the Netherlands, Spain, Ireland and Finland, hours worked grew faster than in America.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Money and interest rates

Feb 21st 2002
From The Economist print edition

	Money supply* % change on year ago			Interest rates % p.a. (Feb 20th 2002)					
				3-mth money market		2-year	10-year gov't bonds		corporate
	narrow	broad		latest	year ago	gov't bonds	latest	year ago	bonds
Australia	+21.8	+14.9	Dec	4.30	5.61	4.81	5.92	5.38	6.90
Britain	+ 7.9	+ 6.7	Dec	4.00	5.69	4.62	5.07	4.85	6.08
Canada	+15.3	+ 4.9	Dec	2.03	5.09	3.29	5.36	5.48	6.90
Denmark	+ 6.6	+ 6.5	Dec	3.70	5.02	4.26	5.09	5.07	7.01
Japan	+16.0	+ 3.6	Jan	0.05	0.33	0.08	1.52	1.35	1.61
Sweden	+ 7.1	+ 6.2	Nov	3.84	4.00	4.73	5.30	4.85	5.48
Switzerland	+ 4.1	+ 5.0	Jan	1.68	3.52	2.57	3.86	3.44	4.66
United States	+ 7.8	+11.5	Jan	1.82	5.19	2.97	4.93	5.26	6.75
Euro area†	+ 5.0	+ 8.0	Dec	3.35	4.71	3.86	4.88	4.77	5.76

*Narrow: M1 except Britain and Sweden M0, broad: M2 or M3 except Britain M4. †Germany for bonds. Benchmarks: US 30-year 5.39%, Japan No.236 1.53%. Central bank rates: US fed funds 1.75%, ECB refinancing 3.25%, BOJ overnight call 0.001%, BOE repo 4.00%. Sources: Commerzbank, Danske Bank, J.P. Morgan Chase, Royal Bank of Canada, Stockholmsbörsen, UBS Warburg, DRI-WEFA, Westpac, Thomson Financial Datastream. Rates cannot be construed as banks' offers.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

The Economist commodity price index

Feb 21st 2002
From The Economist print edition

1995=100

	Feb 12th	Feb 19th*	% change on one month	% change on one year
Dollar index				
All items	67.6	67.5	+ 0.4	– 5.4
Food	67.7	68.2	– 0.7	– 3.7
Industrials				
All	67.4	66.5	+ 1.8	– 7.8
Nfa†	66.9	65.9	+ 3.6	+ 2.0
Metals	67.8	67.1	+ 0.3	–14.6
Sterling index				
All items	74.5	74.5	+ 0.3	– 4.4
Euro index				
All items	101.4	101.5	+ 1.3	– 1.7
Yen index				
All items	95.6	95.9	– 0.1	+ 9.3
Gold				
$ per oz	300.00	298.25	+ 5.6	+15.9
West Texas Intermediate				
$ per barrel	20.60	20.69	+ 6.5	–27.3

* Provisional. † Non-food agriculturals.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Stockmarkets

Feb 21st 2002
From The Economist print edition

Market indices

	Feb 20th	2001-02 high	2001-02 low	% change on one week	% change on record high	% change on Dec 31st 2000 in local currency	% change on Dec 31st 2000 in $ terms
Australia (All Ordinaries)	3,382.6	3,425.2	2,867.4	– 0.9	– 1.2	+ 7.2	– 0.3
Austria (ATX)	1,231.7	1,245.8	1,014.3	+ 0.5	–29.1	+14.8	+ 6.6
Belgium (Bel 20)	2,688.0	3,030.4	2,322.6	– 3.6	–27.0	–11.1	–17.5
Britain (FTSE 100)	5,024.1	6,334.5	4,433.7	– 2.5	–27.5	–19.3	–22.8§
Canada (Toronto Composite)	7,431.8	9,348.4	6,513.1	– 1.7	–34.7	–16.8	–21.4
Denmark (KBX)	221.5	294.3	197.8	– 0.4	–26.6	–16.3	–22.0
France (SBF 250)	2,782.5	3,820.2	2,335.3	– 2.5	–36.6	–26.2	–31.5
(CAC 40)	4,239.0	5,998.5	3,652.9	– 2.9	–38.8	–28.5	–33.6
Germany (Xetra DAX)	4,780.2	6,795.1	3,787.2	– 3.1	–40.7	–25.7	–31.0
Italy (BCI)	1,344.9	1,948.4	1,082.9	– 2.1	–38.4	–29.8	–34.8
Japan (Nikkei 225)	9,834.1	14,529.4	9,420.9	– 1.3	–74.7	–28.7	–39.1
(Topix)	956.9	1,441.0	863.4	– 2.7	–66.8	–25.5	–36.4
Netherlands (AEX)	480.0	642.3	396.2	– 2.7	–31.6	–24.7	–30.1
Spain (Madrid SE)	776.5	963.9	648.6	– 1.5	–32.3	–11.8	–18.1
Sweden (Affarsvarlden Gen)	209.9	293.1	177.5	– 3.9	–47.6	–24.4	–32.4
Switzerland (Swiss Market)	6,199.4	8,135.4	5,110.2	– 2.2	–26.3	–23.8	–27.3
United States (DJIA)	9,941.2	11,337.9	8,235.8	– 0.5	–15.2	– 7.8	– 7.8
(S&P 500)	1,098.0	1,373.7	965.8	– 1.8	–28.1	–16.8	–16.8
(Nasdaq Comp)	1,775.6	2,859.2	1,423.2	– 4.5	–64.8	–28.1	–28.1
Europe (FTSE Eurotop 300)*	1,185.5	1,545.5	998.9	– 2.9	–30.5	–22.7	–28.2
Euro area (FTSE Ebloc 100)*	1,015.1	1,404.1	843.6	– 3.5	–34.5	–27.1	–32.3
World (MSCI)†	946.2**	1,249.2	856.6	– 2.3	–34.7	na	–22.5
World bond market (Salomon)‡	434.9	461.7	420.6	+ 0.1	– 5.4	na	– 2.1

*In euro terms. †Morgan Stanley Capital International index includes individual markets listed above plus eight others, in dollar terms. ‡Salomon Smith Barney World Government Bond Index, total return, in $ terms. **Prov. § Last week's figure should have read -20.6.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Trade, exchange rates and budgets

Feb 21st 2002
From The Economist print edition

	Trade balance*, $bn latest 12 months		Current account $bn latest 12 mths		The Economist poll % of GDP, forecast 2001	2002	Exchange rate trade-weighted† Feb 20th	year ago	Currency units per $ Feb 20th	year ago	per £	per euro	per ¥100	Budget balance % of GDP 2001‡
Australia	+ 2.0	Dec	− 8.5	Q3	− 2.2	− 2.9	74.7	71.9	1.93	1.90	2.76	1.69	1.45	0.1
Austria	− 4.7	Nov	− 3.6	Dec	− 2.3	− 2.0	100.1	100.3	15.8	15.1	22.5	13.8	11.8	nil
Belgium	+ 10.9	Dec	+ 12.4	Sep	+ 4.0	+ 4.3	98.7	99.1	46.3	44.2	66.1	40.3	34.6	nil
Britain	− 48.4	Dec	− 17.7	Q3	− 1.5	− 2.1	107.6	104.4	0.70	0.69	–	0.61	0.52	1.1
Canada	+ 42.5	Nov	+ 23.9	Q3	+ 2.8	+ 1.9	76.2	77.8	1.59	1.54	2.27	1.39	1.19	2.8
Denmark	+ 6.8	Dec	+ 4.1	Dec	+ 2.8	+ 2.3	101.9	101.9	8.52	8.19	12.2	7.43	6.37	2.0
France	+ 2.9	Dec	+ 26.8	Dec	+ 1.6	+ 1.5	101.3	101.8	1.15§	1.10	1.6	1.00	0.86	-1.5
Germany	+ 84.0	Dec	+ 10.2	Dec	− 0.4	− 0.1	98.4	98.8	2.24	2.15	3.20	1.96	1.68	-2.5
Italy	+ 6.9	Nov	+ 1.9	Nov	− 0.2	+ 0.2	72.3	72.7	2,221	2,124	3,171	1,936	1,659	-1.4
Japan	+ 70.2	Dec	+ 91.2	Dec	+ 2.1	+ 2.2	127.1	143.5	134	117	191	117	–	-6.4
Netherlands	+ 20.2	Nov	+ 11.8	Q4	+ 3.6	+ 3.7	97.6	98.1	1.15§	1.10	1.64	–	0.86	1.1
Spain	− 38.4	Nov	− 15.5	Nov	− 2.5	− 2.3	74.0	74.3	191	182	272	166	143	nil
Sweden	+ 12.5	Dec	+ 5.9	Dec	+ 2.6	+ 2.5	75.7	77.9	10.55	9.88	15.1	9.19	7.88	3.8
Switzerland	+ 1.0	Dec	+ 25.4	Q3	+10.0	+10.1	111.4	107.6	1.70	1.68	2.42	1.48	1.27	na
United States	−434.0	Nov	−430.7	Q3	− 4.0	− 4.1	123.9	116.0	–	–	1.43	0.87	0.75	0.6
Euro area	+ 32.6	Nov	− 24.4	Nov	− 0.2	nil	78.2	79.2	1.15	1.10	1.64	–	0.86	-1.2
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*													
Finland	+ 11.1	Dec	+ 8.3	Dec	na	na	77.9	78.1	6.82	6.52	9.74	5.95	5.09	3.7
Greece	− 19.3	Oct**	− 8.2	Oct	na	na	57.4	57.5	391	374	558	341	292	0.2
Iceland	− 0.2	Nov	− 0.7	Q3	na	na	na	na	87	87	124	75.6	64.7	-0.2
Ireland	+ 31.6	Nov	− 1.5	Q2	na	na	86.8	87.9	1.15§	1.10	1.64	1.00	0.86	3.2
Luxembourg	− 2.8	Nov	+ 0.4	Q3	na	na	98.7	99.1	46.3	44.2	66.0	40.3	34.5	5.3
New Zealand	+ 0.4	Dec	− 0.2	Q3	na	na	82.7	80.5	2.38	2.32	3.40	2.07	1.78	1.3
Norway	+ 24.5	Jan	+ 24.0	Nov	na	na	98.4	92.3	9.03	9.03	12.9	7.87	6.75	14.3
Portugal	− 13.9	Oct	− 10.4	Nov	na	na	89.1	89.5	230	220	328	200	172	-1.7

*Merchandise. Australia, Britain, France, Canada, Japan and United States imports fob, exports fob. All others cif/fob. †1990=100, Bank of England. ‡OECD estimate. §Now using euro only. **Corrected.

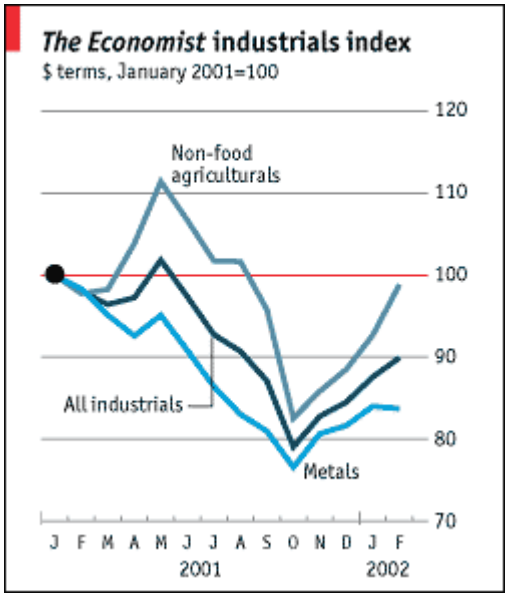
Text refers only to the first 16 countries listed

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

The Economist industrials index

Feb 21st 2002
From The Economist print edition

Our dollar-based industrial commodity price index has risen by 14% from a 15-year low in October 2001. The non-food agricultural index is up by 20%, but the rally in metal prices has now stalled. Australian wool prices have leapt by a third in six weeks to a 12-year high. By contrast, cotton prices are at their lowest level for 15 years.



Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Overview

Feb 21st 2002
From The Economist print edition

On February 20th, the second day of George Bush's visit, shares in **South Korea** closed down. But they were still up 5% over the week. Since the end of 2000, Seoul has risen by 54% in local terms, the best performance in East Asia, and second among emerging markets only to **Russia's** 112.5% increase.

GDP grew healthily in **Indonesia** in the fourth quarter, raising the growth rate to 4.1% in the year to that quarter. However, output shrank sharply in **Israel**, and the economy declined by 3.4% over the same period.

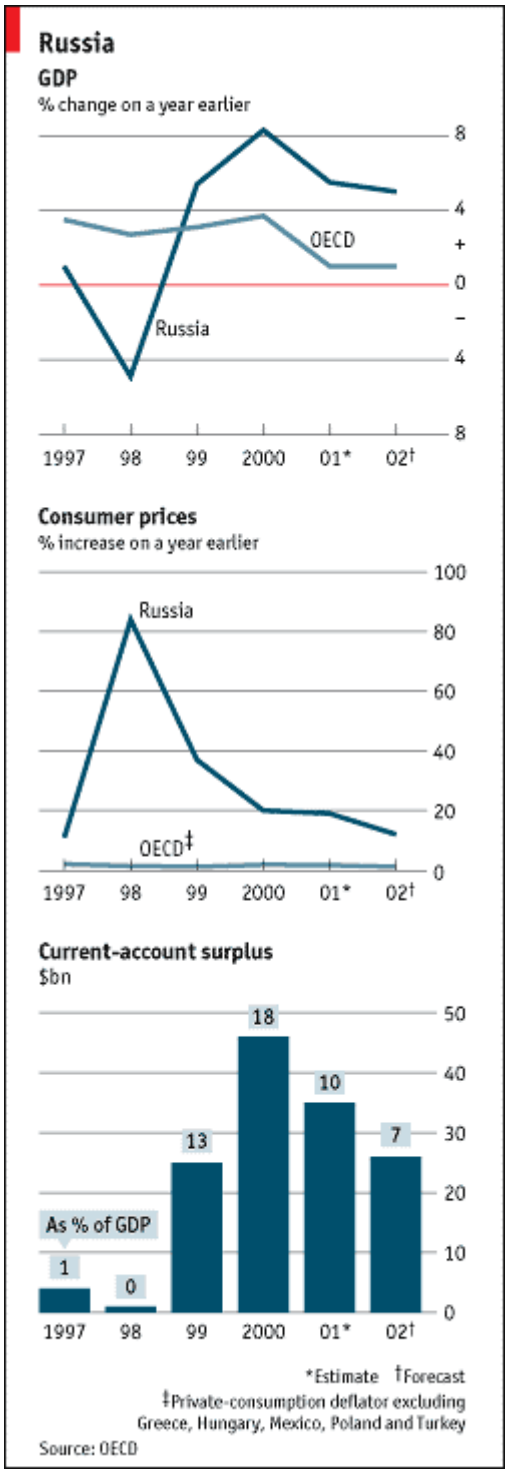
Industrial production in **Poland** fell by 5% in January, leaving output 1.4% down compared with a year earlier.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Russia

Feb 21st 2002
From The Economist print edition

Boosted by high oil prices and a cheap currency, Russia's economy has turned around dramatically since its crisis in August 1998. According to a new OECD report, GDP has grown by an annual average of over 6% during the past three years. Unemployment fell from 13% at the end of 1999 to 8% in mid-2001.



Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Economy

Feb 21st 2002
From The Economist print edition

	% change on year earlier						Latest 12 months, $bn				Foreign reserves* $bn, latest	
	GDP		Industrial production		Consumer prices		Trade balance		Current account			
China	+ 7.0	Q3	+ 9.9	Jan	– 1.0	Jan	+24.1	Jan	+20.5	2000	211.8	Nov
Hong Kong	– 0.3	Q3	– 7.1	Q3	– 1.2	Dec	–11.2	Dec	+ 8.8	Q3	111.3	Jan
India	+ 5.3	Q3	+ 1.6	Dec	+ 5.2	Dec	– 5.8	Dec	– 0.7	Q3	46.4	Jan
Indonesia	+ 4.1	Q4	+ 3.2	Q2	+14.4	Jan	+25.1	Dec	+ 3.8	Q3	27.3	Dec
Malaysia	– 1.3	Q3	– 7.7	Dec	+ 1.1	Jan	+14.0	Dec	+ 7.4	Q3	30.5	Dec
Philippines	+ 3.8	Q4	– 5.0	Nov	+ 3.8	Jan	+ 2.6	Dec	+ 5.0	Oct	14.0	Jan
Singapore	– 7.0	Q4	–22.1	Dec	– 0.6	Dec	+ 5.2	Dec	+22.1	Q3	75.3	Jan
South Korea	+ 1.8	Q3	+ 3.3	Dec	+ 2.6	Jan	+ 9.5	Jan	+ 9.9	Nov	104.3	Jan
Taiwan	– 2.7	Q4	– 6.1	Dec	– 1.7	Jan	+17.5	Jan	+19.0	Q4	123.6	Jan
Thailand	+ 1.5	Q3	+ 1.3	Dec	+ 0.8	Jan	+ 2.5	Dec	+ 6.2	Dec	32.4	Dec
Argentina	– 4.9	Q3	–18.3	Dec	+ 0.6	Jan	+ 6.3	Dec	– 6.8	Q3	14.6	Dec
Brazil	+ 0.5	Q3	– 6.1	Dec	+ 9.8	Jan	+ 3.3	Jan	–23.2	Dec	35.8	Dec
Chile	+ 2.6	Q3	– 1.9	Dec	+ 2.2	Jan	+ 1.3	Jan	– 1.7	Q3	14.2	Dec
Colombia	+ 1.0	Q3	– 4.3	Nov	+ 7.4	Jan	+ 0.5	Nov	– 1.2	Q3	10.1	Jan
Mexico	– 1.6	Q4	– 3.6	Dec	+ 4.8	Jan	– 9.7	Dec	–16.6	Q3	44.7	Dec
Peru	+ 4.1	Dec	– 4.2	Nov	– 0.8	Jan	– 0.1	Nov	– 1.4	Q3	8.8	Nov
Venezuela	+ 2.8	Q3	+ 7.9	Oct	+12.3	Jan	+13.0	Q3	+ 4.4	Q4	9.4	Nov
Egypt	+ 4.6	2000†	+ 9.4	2000†	+ 2.2	Nov	– 8.5	Sep	nil	Q3	13.3	Nov
Israel	– 3.4	Q4	– 9.6	Nov	+ 3.1	Jan	– 7.0	Jan	– 3.6	Q3	23.1	Jan
South Africa	+ 0.1	Q3	+ 5.4	Dec	+ 4.6	Dec	+ 4.1	Dec	+ 0.3	Q3	6.0	Dec
Turkey	– 7.1	Q3	– 9.4	Dec	+73.2	Jan	–11.3	Nov	+ 2.8	Nov	18.9	Dec
Czech Republic	+ 3.2	Q3	+ 7.0	Dec	+ 3.7	Jan	– 3.1	Dec	– 2.6	Q3	14.5	Jan
Hungary	+ 3.7	Q3	+ 1.6	Dec	+ 6.6	Jan	– 1.6	Dec	– 0.5	Dec	10.3	Jan
Poland	+ 0.8	Q3	– 1.4	Jan	+ 3.5	Jan	–11.7	Dec	– 7.0	Dec	25.4	Jan
Russia	+ 4.9	Q3	+ 2.2	Jan	+19.2	Jan	+49.7	Dec	+41.5	Q3	32.3	Jan
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*											
Pakistan	+ 3.3	2001†	+ 7.7	Sep	+ 2.5	Jan	– 1.0	Nov	+ 0.3	2001†	3.6	Dec
Saudi Arabia	+ 4.5	2000	na		nil	Nov	+50.9	2000	+14.3	2000	17.6	Dec

*Excluding gold, except Singapore; IMF definition. †Year ending June.

Text refers only to the first 25 countries listed

Sources: National statistics offices, central banks and stock exchanges; Thomson Financial Datastream; Economist Intelligence Unit; Reuters; Warburg Dillon Read; J.P Morgan Chase; Hong Kong Monetary Authority; Centre for Monitoring Indian Economy; FIEL; EFG-Hermes; Bank Leumi Le-Israel; Standard Bank Group; Garanti Bank; Deutsche Bank; *Russian Economic Trends*.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Financial markets

Feb 21st 2002
From The Economist print edition

	Currency units			Interest rates	Stockmarkets	% change on		
	per $		per £	short-term	Feb 20th		Dec 31st 2000	
	Feb 20th	year ago	Feb 20th	% p.a.		one week	in local currency	in $ terms
China	8.28	8.28	11.8	na	1,571.1	nil	– 28.3	– 28.3
Hong Kong	7.80	7.80	11.1	1.96	10,749.1	– 0.8	– 28.8	– 28.8
India	48.6	46.6	69.4	6.34	3,558.2	+ 1.1	– 10.4	– 13.9
Indonesia	10,187	9,621	14,544	17.55	458.5	+ 5.0	+ 10.1	+ 4.6
Malaysia	3.80	3.80	5.43	3.28	722.8	+ 1.7	+ 6.3	+ 6.3
Philippines	51.3	48.2	73.2	7.94	1,453.2	+ 4.6	– 2.8	– 5.2
Singapore	1.83	1.74	2.61	0.95	1,729.4	– 0.6	– 10.2	– 14.9
South Korea	1,315	1,239	1,877	4.50	776.9	+ 5.0	+ 54.0	+ 48.1
Taiwan	35.1	32.3	50.0	2.55	5,692.2	– 3.9	+ 20.0	+ 13.3
Thailand	43.8	42.9	62.5	2.31	376.3	+ 4.0	+ 39.8	+ 38.6
Argentina	2.16**	1.00	3.08	na	388.9	+ 0.9	– 6.7	– 56.8
Brazil	2.43	2.02	3.47	19.05	13,302.8	+ 2.6	– 14.7	– 31.5
Chile	675	566	964	4.31*	5,248.2	– 0.4	+ 7.8	– 8.4
Colombia	2,282	2,252	3,258	10.70	1,076.5	– 4.2	na	na
Mexico	9.09	9.71	13.0	7.99	6,584.0	– 2.0	+ 16.5	+ 23.2
Peru	3.47	3.53	4.96	2.44	1,270.5	+ 0.5	+ 5.1	+ 6.8
Venezuela	954	704	1,361	28.23	6,806.1	+ 1.7	+ 0.2	– 26.5
Egypt	4.61	3.89	6.59	7.23	5,240.3	+ 1.3	– 31.6	– 42.3
Israel	4.68	4.12	6.68	2.22	400.5	– 4.8	– 19.0	– 30.0
South Africa	11.4	7.79	16.3	9.95	10,682.6	– 1.7	+ 28.3	– 14.7
Turkey	1,370,500	687,550	1,956,663	52.00	11,091.9	– 6.2	+ 17.5	– 42.5
Czech Republic	36.6	38.1	52.3	4.19	416.1	+ 2.0	– 13.0	– 10.7
Hungary	279	292	398	8.46	7,940.4	+ 0.8	+ 1.2	+ 2.4
Poland	4.18	4.13	5.96	10.48	15,191.7	– 1.6	– 14.9	– 15.8
Russia	30.9	28.7	44.1	25.00	282.6†	– 4.5	+112.5	+ 97.2
EMF (MSCI)‡	1.00	1.00	1.43	na	330.8††	+ 0.9	na	– 0.9
EMBI+§	1.00	1.00	1.43	na	210.8	+ 1.0	na	+ 4.4

*Inflation adjusted. †In $ terms. ‡Emerging Mkts Free. §J.P. Morgan Chase's Emerging Mkts Bond Index Plus. **Fixed official rate 1.40. ††19th.

Sources: National statistics offices, central banks and stock exchanges; Thomson Financial Datastream; Economist Intelligence Unit; Reuters; Warburg Dillon Read; J.P Morgan Chase; Hong Kong Monetary Authority; Centre for Monitoring Indian Economy; FIEL; EFG-Hermes; Bank Leumi Le-Israel; Standard Bank Group; Garanti Bank; Deutsche Bank; *Russian Economic Trends*.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Correction

Feb 21st 2002
From The Economist print edition

In our issue of February 16th, all the sterling exchange rates in our emerging-markets table were wrong. We divided (rather than multiplied) the dollar exchange rates by the sterling/dollar rate. This mistake has now been corrected. Sorry.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.